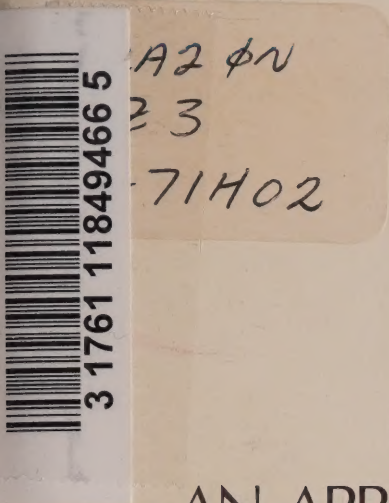
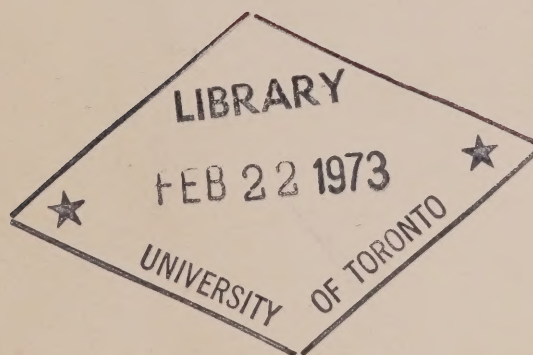


TASK
FORCE
HYDRO



HYDRO IN ONTARIO AN APPROACH TO ORGANIZATION

REPORT NUMBER TWO



Established by
the Committee on
Government Productivity
of Ontario.



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REPORT NUMBER TWO

*REPORT TO THE EXECUTIVE COUNCIL ON
HYDRO IN ONTARIO — AN APPROACH TO ORGANIZATION*

*Presented to the Executive Council
December 14, 1972*



ONTARIO

COMMITTEE ON GOVERNMENT PRODUCTIVITY

FERGUSON BLOCK,
QUEEN'S PARK,
TORONTO 182, ONTARIO
TELEPHONE (416) 365-7121

TO HIS HONOUR

THE LIEUTENANT-GOVERNOR OF THE PROVINCE OF ONTARIO

MAY IT PLEASE YOUR HONOUR:

We, the members of the Committee on Government Productivity, appointed by Order-in-Council, dated 23rd December, 1969 to inquire into all matters pertaining to the management of the Government of Ontario and requested in the Speech from the Throne, dated 30th March, 1971, to review the function, structure, operation, financing and objectives of the Hydro-Electric Power Commission of Ontario submit to Your Honour, herewith, a second report of Task Force Hydro containing their recommendations relating to the future organization of the Hydro-Electric Power Commission of Ontario.

We have examined this report and have satisfied ourselves that the recommendations are in keeping with the overall concepts of the Committee on Government Productivity. We endorse the general principles and recommendations.

A handwritten signature in dark ink, appearing to read "John D. G. Brown".

Chairman

TASK FORCE HYDRO

Established
by the Committee
on Government
Productivity of
Ontario

Ferguson Block
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TO JOHN B. CRONYN, ESQ.,
CHAIRMAN OF THE COMMITTEE
ON GOVERNMENT PRODUCTIVITY

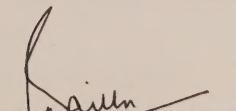
We, the members of the Steering Committee of Task Force Hydro, appointed by the Government of Ontario to review the function, structure, operation, financing and objectives of the Hydro-Electric Power Commission of Ontario submit herewith a second report containing recommendations for the future organization of Hydro in Ontario.

The cooperation shown by the Chairman of Hydro, the Commissioners, the General Manager, and other Hydro Executives was invaluable to those conducting the Organization Study and is greatly appreciated.

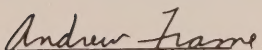
It is requested that this report be conveyed to Hydro for its guidance and consideration.

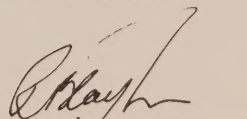

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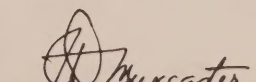

J. D. MUNCASTER
CHAIRMAN



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SECTION I

BACKGROUND

Purpose of Report

This report presents the findings of Task Force Hydro's Organization Study. It describes the terms of reference, method of operation and the conclusions of our Organization Study Team. Its purpose is to provide a basis for change within Hydro, change which will be consistent with a new Role and Place and the requirements of a new era.

Terms of Reference

The broad terms of reference directed the Organization Study Team to work with Ontario Hydro using a participative analysis to devise an organization concept for the decades ahead to ensure that:

- Hydro can fulfill its future role efficiently and effectively;
- Hydro is responsive to social, economic and political changes in the future;
- There exists a clear division of responsibility and authority between the new Hydro Board of Directors and Hydro Management;
- The specific locus of internal management responsibility, authority and accountability is clearly defined;
- Hydro makes the best use of the human resources it employs.

Orientation

Task Force Hydro's Role and Place Project¹ (footnotes are located at the end of each section) was a detached, objective review of Hydro's relationships with Government and the Ontario community. As such, it was designed to produce findings and hard recommendations which would circumscribe the context within which the organization must function in the years ahead. By contrast, the Organization Study has been based on the findings and conclusions of Role and Place and, using a participative analysis, has involved Hydro personnel to devise an organization which can function effectively within the new context. Our aim was to work in partnership with Hydro personnel to assist them in planning for and initiating change in the structure and management of the organization. The Organization Study Team made it clear from the beginning that it would not attempt to plan in detail an organization for Hydro.

Study Plan

The study plan comprised five phases, as follows:

A Preliminary Phase: This encompassed the analysis of background material, a preliminary interview program to highlight some of the main issues, and a documentation of the existing organization.

A Diagnosis Phase: This comprised interviews with senior personnel and group sessions with a cross section of Hydro employees, aimed at the isolation and analysis of key organizational issues as perceived by Hydro personnel.

An Organization Design Phase: Building on the issues defined in the diagnosis phase, making use of the preliminary findings of the Role and Place Project and drawing upon the experience of related utilities, this phase defined a preliminary structural model for organization. This model was discussed with Hydro managers and modified on the basis of this further consideration.

A Development of Implementation Program Phase: This phase involved the preparation of an implementation plan and organization change program to be implemented by Hydro.

Implementation Phase: This is a dynamic process for bringing about change in Hydro. It is to be the responsibility of Hydro management and is to take place over a period of years.

Participative Analysis

Emphasis throughout the Organization Study was, as we have already pointed out, placed on a participative analysis with Managers, Directors and Assistant General Managers in Hydro. This was done for two reasons. It was essential, in our view, to focus on the issues as perceived by Hydro executives and these could be brought out most clearly in group sessions. Secondly, and of greater importance, was the fact that organization change can come about only with full involvement of those who must ultimately make it work.

Four diagnostic sessions were held in the fall of 1971 at the Hydro Conference and Development Centre at Orangeville. Each session of 48 hours gave our Organization Study Team the opportunity of working with a group of 15 to 25 Hydro executives to define issues which they saw as impeding their ability to function as managers. The format was unstructured. Subgroups were asked to compile, discuss and prepare short reports on issues, and plenary sessions provided an opportunity to check the

consistency of perceptions. The discussions were lively and candid, with Hydro executives cooperating fully in improving our understanding of their organization.

A compilation of the issues identified was prepared and circulated to participants for comment. Feedback sessions of a half day duration were also held at which groups of ten to twelve executives were asked to discuss their views on the summary of perceptions gleaned from the diagnostic sessions.

Critique sessions, three in all, were held at Orangeville in the spring of 1972. These two-day workshops gave us an opportunity to present preliminary Role and Place findings and our preliminary ideas on an appropriate organization response for Hydro. The General Manager's Committee and two groups of Directors gave us candid commentary on the strengths and weaknesses of both sets of proposals. The sessions served to establish areas of agreement in principle and to isolate those in which there was disagreement. They had significant influence on both Role and Place and Organization conclusions.

Hydro's Current Organization

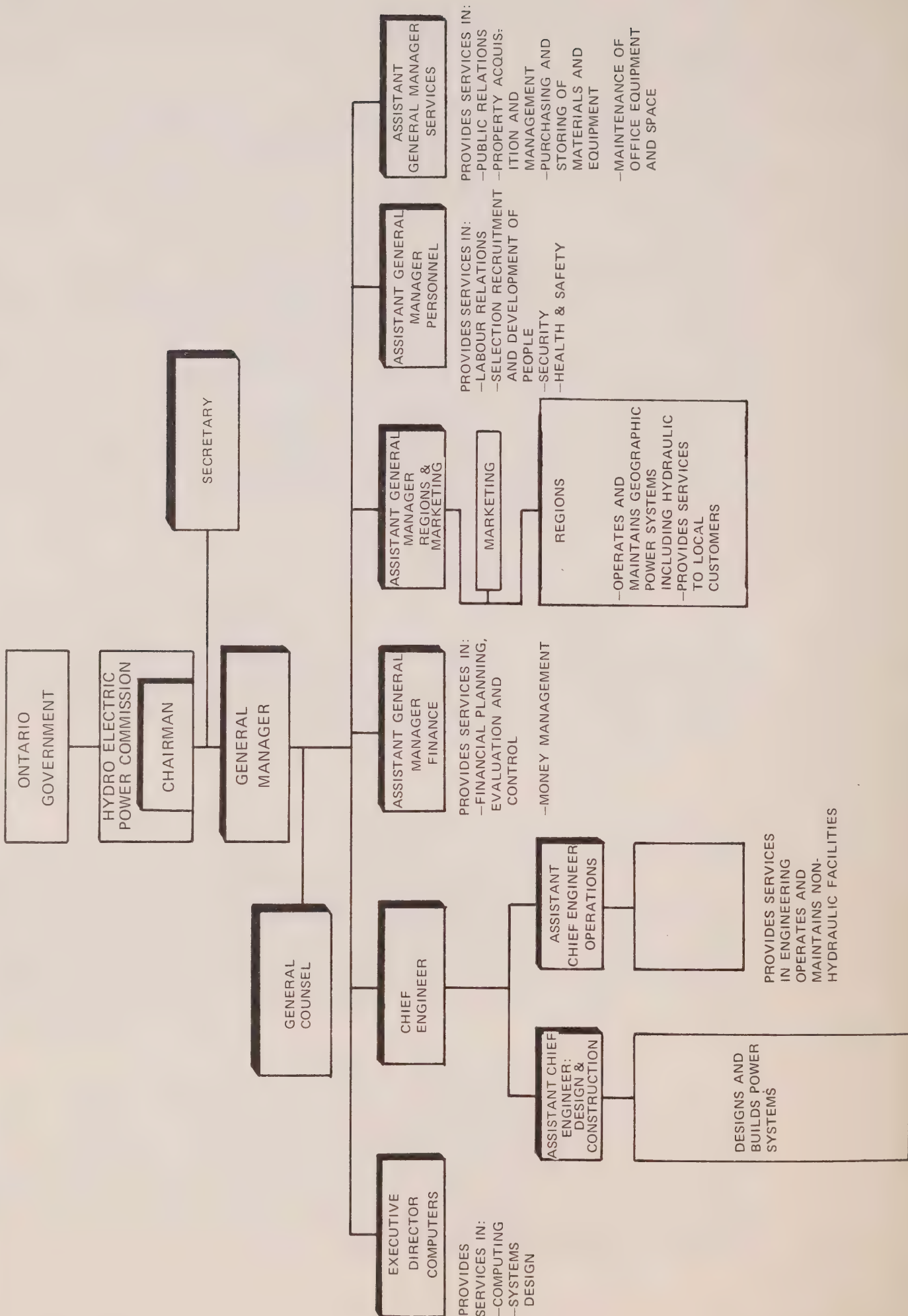
Hydro's current organization is illustrated in Figure 1. There are two principal operating branches; Engineering, and Regions and Marketing. Engineering, the larger of the two, is subdivided into Design and Construction and Operations. Four service branches, Computers, Finance, Personnel and Services, support the operating branches.

A New Role for Hydro

In our First Report¹, we drew attention to a spectrum of emerging pressures which will bear on Ontario Hydro and its associated Municipal Utilities in the years ahead. Noting the worldwide trend toward greater government intervention in the affairs of public utilities, we identified the following issues of policy of interest to both Hydro and the Ontario Government:

- Power Pricing;
- Return on Investment;
- Stability of Capital Markets;
- Discriminatory Pricing;
- Energy Policy;
- Environmental Policy;
- Exploitation of Technology;

FIGURE 1: CURRENT ORGANIZATION OF ONTARIO HYDRO



Regional Development;
Productivity and Efficiency;
Capital Investment Timing.

At the same time, we noted the emergence of regional Government in Ontario and the need to rationalize the existing 353 municipal utilities which distribute power to the bulk of Ontario customers. Looking ahead, we foresaw the continued growth of the bulk power system itself, to meet the demand for electricity which is reported to be increasing at the rate of 7 percent per annum. Accordingly we put forward 26 recommendations defining a mandate for Ontario Hydro and the municipal utilities. These recommendations are repeated in Section VII Summary of Recommendations in this Report. Recommendations 1.1 to 1.17 deal with Ontario Hydro to the effect that:

- Ontario Hydro be responsible for receiving broad policy direction from the Government for the total delivery system which includes the distribution utilities and for continuing to meet the demand for electricity in Ontario at the lowest feasible cost, and that:
- Ontario Hydro respond to the emerging demands of the public in such areas as transfer of technology to the private sector, development of environmental and energy policy, and citizen participation in decisions to locate generation and transmission facilities.

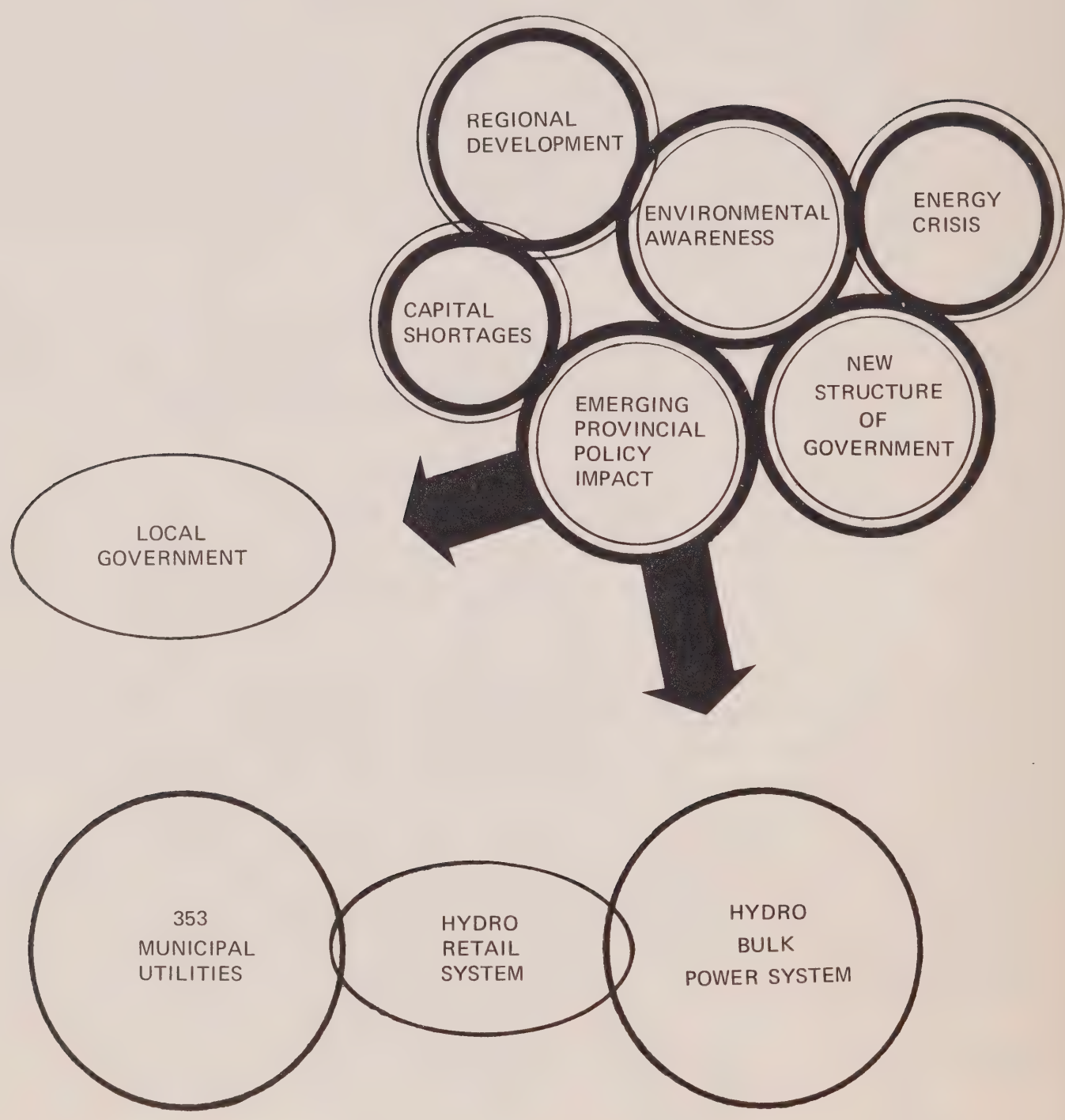
Recommendations 1.23 to 1.31 deal with Hydro's role in relation to the rationalization of the distribution system, and with the future need for a greater distinction between Hydro's responsibility for generation and transmission and that of the municipal utilities for the distribution function.

This new role for Hydro will broaden and deepen its relationship with the Municipalities and with Government. The new relationships, illustrated in Figure 2, will be developed to take advantage of the new structure now emerging for the Ontario Government,² which we interpret as giving to Hydro management wider latitude in structuring and managing the power utility in a way which best meets a more complex set of objectives. Closer integration with Government on policy formulation, and more clearly defined operating autonomy for Hydro will be the pattern.

A New Place for Hydro

To provide for the new role, we have put forward 5 additional recommendations to the effect that Ontario Hydro is to be designated a crown corporation. Recommendations 1.18 to 1.22 in defining a new

FIGURE 2: EMERGING ISSUES



corporate structure and Board of Directors will signal a change from the Commission structure and establish a Board with a greater degree of operational independence and the important responsibility for shaping Hydro's corporate policy in support of Government's broader objectives. ✓

The dual responsibility of the Board for responsiveness to Government policy and for independence in operations is illustrated by the roles recommended for the Chairman and the President to the effect that:

The Chairman be appointed on a full time basis and his orientation be outward to the Ontario community and to the Government ... and that the President, appointed by the Board of Directors, shall be responsible to the Board for directing the affairs of the corporation.

Implied in these changes is a new relationship between Hydro and the Municipal Utilities. The Hydro Corporation is to be responsible for translating policy into power contracts with each utility — such contracts to reflect a working agreement between local and Hydro objectives. It is expected that the Ontario Municipal Electric Association will play an important role in the development of these agreements.

Hydro's new place is illustrated in Figure 3.

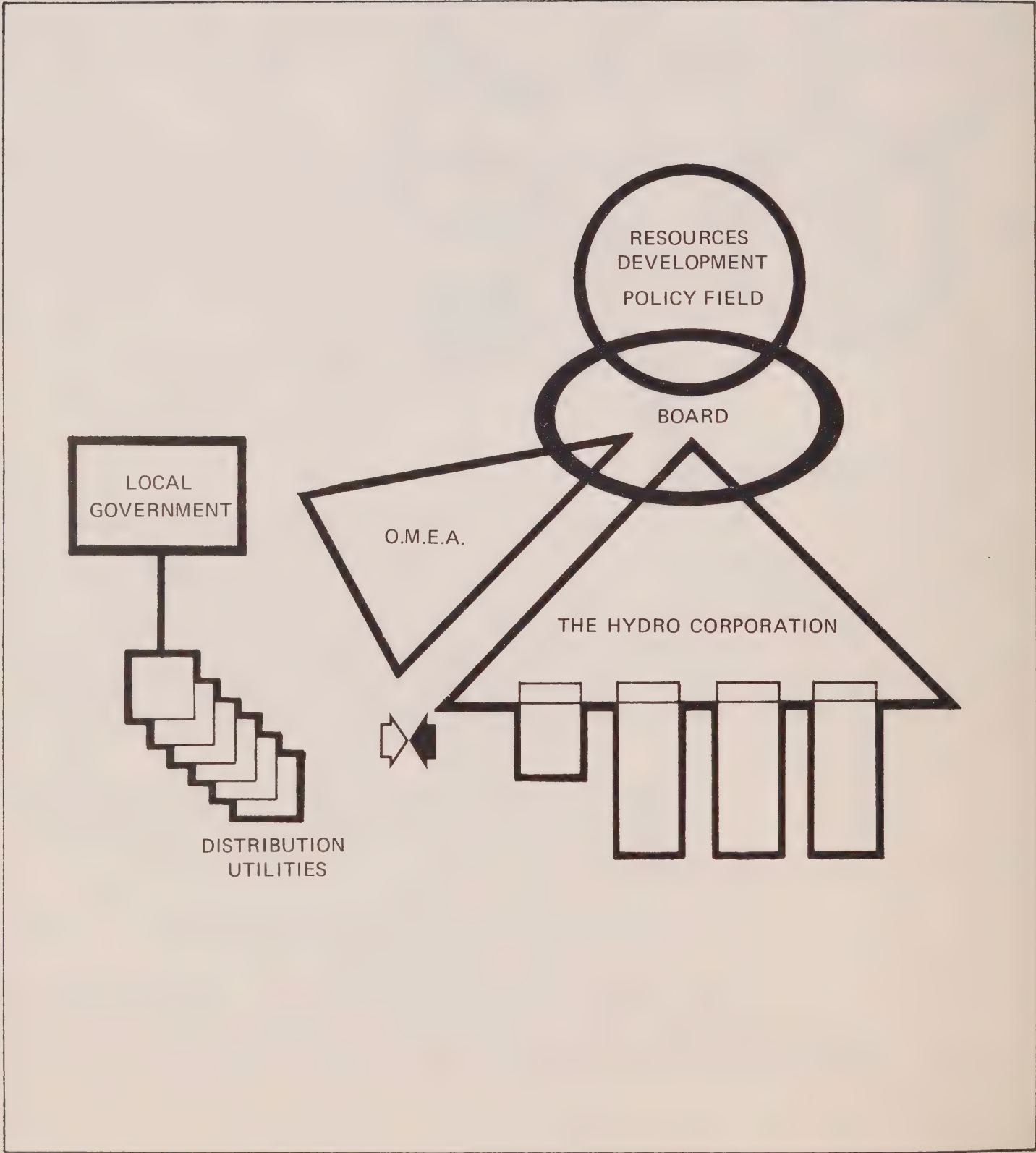
Rationalized Retail System

We foresee changes in the way in which power is to be distributed to customers in Ontario. For the longer-term we have judged that the generation and transmission of bulk power — the wholesaling function — and the distribution of electricity to customers — the retailing function — are best separated. Ontario Hydro is to have responsibility for the management of the system up to the main secondary bus bar of the transformer station, with municipal utilities having responsibility for the balance. We have recommended that:

- 1.25 Municipal utilities be rationalized into upper tier regional utilities where and as new municipal government is implemented.
- 1.26 The area to be served by the regional utility be the entire area served by the new municipal government.

Rationalization of local utilities in those parts of the province not likely to fall under restructured municipal governments in the foreseeable future is to be further studied, the intent being to reduce the number and

FIGURE 3: A NEW PLACE FOR HYDRO



increase the size of the distribution utilities with which Hydro will eventually deal.

A Base for Reorganization

These, then, are the principal new factors which will reshape the Role and Place of Ontario Hydro over the next decade. In many respects, they alter substantially the relationship between Hydro and the Ontario Government and between Hydro and the Municipal Utilities. They do so at a time when an increase in demand for electric power continues unabated and when severe economic, social and technological problems are emerging to challenge Hydro's ability to expand to meet this demand.

Organizational adjustments will be necessary to enhance Hydro's ability to meet these challenges. It is to this we now turn.

FOOTNOTES

- ¹. Task Force Hydro: Hydro in Ontario — A Future Role and Place: Report Number One, Report to the Executive Council, August 15, 1972.
- ². Committee on Government Productivity, Interim Report Number Three: Report on the Structure of Government and Interim Recommendations to the Executive Council, Queen's Park, December 1971.

SECTION II

ORGANIZATION DESIGN CRITERIA

Organization design is not an exact science. Indeed, at its present state of development it is more art than science. The theoretical literature is fragmented and a definitive body of knowledge remains to be forged. But organizations function, and their structures adjust to meet changing circumstances. And there are good organization designs, and bad ones.

Our approach to Hydro's organization design was inductive rather than deductive. First, our Study Team sought to identify the main issues and from them define some design criteria. This was the purpose of the diagnostic and feedback sessions. Here they were primarily interested in the views and attitudes of the men who make the organization work. Their knowledge of the Role and Place Study³ gave them an appreciation of the new challenges which would face Hydro in the years ahead. The Role & Place policy variables provided a new slant on existing organization issues and revealed new ones which Hydro will have to face in future.

On the basis of these design criteria a series of alternative approaches to organization was developed in skeletal form based upon those segments of current organization theory which seemed to have the greatest applicability to Hydro. Of the variety of theoretical approaches available, three schools of thought were considered by our Study Team to be relevant to Hydro. For the interested reader, a brief explanation is included in Appendix I. The Study Team also reviewed organization patterns used in other industries, including the utilities.

The alternatives were evaluated on the basis of how well they supported the design criteria, and how well they fitted the managerial job facing Hydro in the future. Testing the goodness-of-fit of the various aspects of the alternative organization approaches led our Study Team to discard some and reshape others. Finally, this iterative process of design led to a proposal for organization which, in our view, meets the design criteria with a minimum of "misfit" components.

We now turn to an outline of the principal design criteria used in developing a new organization concept for Hydro. In defining them, the Organization Study Team were influenced by two important general considerations: first, the new range of external policy variables facing Hydro which have had a bearing on our redefinition of its Role and Place, and second, the anticipated continued growth of the power system which is complicated by increased complexity through technological change.

We have weighed these factors through a careful assessment of information from three sources. The Organization Study Team, through its close involvement with Hydro managers, has provided us with a view of organization problems as perceived by those who manage the system. Our analysis of the issues facing Hydro in the future which led to our recommendations for a new Role and Place have given us insight into the way in which these issues will impinge on the organization itself. And, finally, we have received through submissions from the public a broad sampling of views on Hydro's efficiency and effectiveness, its organizational strengths and its weaknesses.

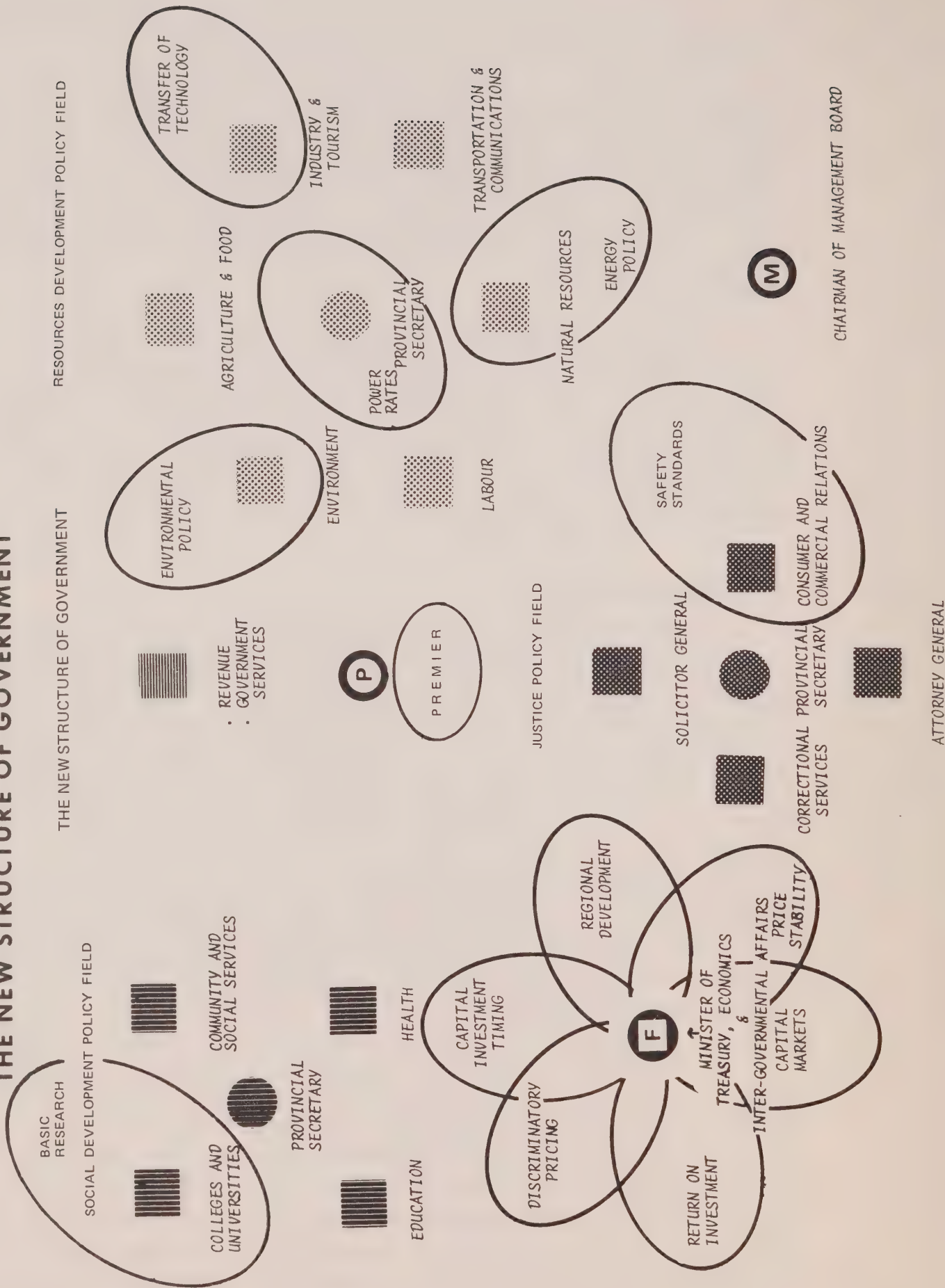
In defining our organization design criteria for Hydro, we have borne in mind the impact of major policy issues on the organization as a whole. Our focus therefore is not on organizational detail but on major functions and on the interrelationship of these functions within the organization. We think the design criteria described below will be those having a most important bearing on Hydro's ability to deal effectively with its changing role in a modern world.

Policy Responsiveness

The new Role and Place calls for a higher order of responsiveness to Ontario Government policy. The crown corporation structure and the new reporting relationship to Government are designed to provide a formal mechanism to bring this about. But much depends on the way in which the Hydro organization supports the deliberations at the Board level, and provides analysis to support the Chairman in his discussions with the Provincial Government. Effective translation of government policy into workable corporate policy depends on what we have termed a "positive sum" relationship between Hydro and the Government. This implies that there are policy solutions in which the interests of both Government and Hydro can be satisfied, and that both parties actively seek them out. Such a positive sum relationship requires a full sharing of information and a creative search for solutions.

Figure 4 indicates how the ten policy issues we have identified as being of joint concern to Hydro and the Ontario Government, cut broadly across the new Ministry and Policy Field Structure of the Government. While we have recommended that Hydro's formal reporting relationship will be through the Provincial Secretary for Resources Development, it is clear that many will be required to coordinate the technical analysis of issues in each of the several Ministries, drawing upon Hydro's analytical capabilities to develop both Hydro and Ministry viewpoints. This is because of the complexity and interrelationship of the policy issues and because

FIGURE 4: HYDRO/GOVERNMENT ISSUES AND THE NEW STRUCTURE OF GOVERNMENT



Hydro alone possesses the viewpoint and capability to draw together the various components from a power point of view.

Policy responsiveness is a wide ranging issue. Many public submissions, for example, raised questions about the appropriateness of Hydro's marketing and promotional activities — questions which probed the underlying policy assumptions which the marketing effort is designed to support. At issue here is both the clarity and consistency of policy and how that policy is developed. Our Role and Place recommendations have emphasized Cabinet responsibility for policy and have stressed the complexity of the issues involved. Some public submissions focused on the need for organizational devices which gave citizens more direct access to policy deliberations. We believe this to be important, both as a way of ensuring Hydro has the benefit of the best advice the Ontario community has to offer and of ensuring that interested citizens have more information on the factors which must be weighed in the formulation of policy direction.

A principal criterion for organization design, therefore, hinges on Hydro's ability to formulate consistent and implementable corporate policy which is consistent with government policy, and sensitive to public views. This we term policy responsiveness.

Strategic Capability

Closely related to the criterion of policy responsiveness is that of an appropriate strategic capability for Hydro. Here we are referring to the organization's ability to foresee a range of possible "futures" for the organization and to define appropriate strategies to cope with each. This is of critical importance to Hydro because of the extensive lead times involved in the Design and Construction of new physical facilities. Hydro has developed a capability for such analysis in assessing physical plant alternatives. This capability, however, has not been fully extended to encompass all facets of Hydro's operations. In the Organization Study Team's discussions with Hydro personnel during the diagnostic phase of the Study, the view was widely expressed that the Commission is required, by the terms of the Power Commission Act, to spend too great a proportion of its time on relatively minor items, rather than concentrating on major strategy.

In the eyes of many, a first step towards rectifying the situation involves delegating to management more responsibility for non-strategic issues. Long-range corporate issues are also thought to receive insufficient attention at the Assistant General Manager level. There was a feeling that the lack of a definitive corporate long-range plan to which all interested parties had contributed makes agreement on and cooperation towards

future goals difficult. Perhaps symptomatic was the complaint that the Finance and Personnel Branches are not involved at an early stage in the planning phases of other branches' projects.

In the future, the question of corporate strategic capacity will become even more complex with the introduction of new policy variables. The Role and Place, for example, recommends that Hydro considerations encompass such non-traditional variables as:

- transfer of Hydro technology to the private sector;
- development and support of environmental and energy policy;
- stabilization of capital markets;
- support of economic policy, including regional development, price stability and stabilization of business cycles;
- a return on investment, or related financial constraint.

An appropriate strategic capability must reach both ways. It must, as indicated earlier, extend into the policy analysis capability of the several Ministries and Policy Fields. Equally important, it must encompass the details of physical system and operational planning with the delivery system itself. Clearly, strategic capability cannot be developed within an ivory tower; it must be related in real terms to the full range of socio-political and technological issues. In our judgement, the development of a strategic capability is a prime criterion for organization in Hydro.

Clarity of Responsibility and Accountability

One perception put forward during the diagnostic sessions concerned the current diffusion throughout several groups of responsibility for individual assignments. In a very technical environment, requiring a high degree of specialization clear definition of responsibility and accountability is difficult to achieve, yet the responsiveness and effectiveness of the organization depends heavily on such a criterion. Difficulties are perceived within Hydro. For example, some feel there is insufficient liaison between the Regions & Marketing Branch and the Engineering Branch given that Engineering has responsibility for the bulk power system while Regional personnel maintain and operate a large part of the system. Some in the Engineering Branch apparently feel that it is inappropriate that the budgets covering Regional personnel who perform duties essentially for the Engineering Branch are subject to decisions made by Regions and Marketing. Conversely, Regions & Marketing people tend not to see this situation as in the least inappropriate. It was thought that problems of this kind will increase as technical changes occur and the system grows.

A further illustration was the perception that service groups are not always fully or effectively utilized; their role is neither sufficiently well

defined nor understood throughout the organization. This was thought to be partly due to line groups having unrealistic expectations as to the kinds of services these groups are in a position to provide, with the result that when these expectations are not met there is disillusionment. On the other hand, many service groups seem to feel that the line groups do not always define their needs adequately, or in some cases, realistically.

Operational Responsiveness: Differentiation

In such a complex, uncertain and diverse environment as that facing Ontario Hydro, there is strong reason to argue that a high degree of differentiation must be permitted among organizational components. Technical design, plant operation, construction and customer service are widely different activities. Each has its own unique requirements for organization, for systems, for styles and for methods of operation. We have suggested in Appendix I that the Lawrence and Lorsch concept of differentiation has general applicability to Hydro, but generally speaking, Hydro has favoured fairly uniform approaches regardless of the external environment to which each unit must respond.

In its earlier days, Hydro's principal orientation was technological focusing on the engineering and technical capabilities to meet a growing demand for power. In time, this orientation shifted to a greater awareness of benefit/cost relationships, or toward a technological-economic orientation. More recently, a third dimension has emerged, primarily because of public interest on the means as well as the ends of power production.

Hydro is now moving into a technological-economic-social orientation and this will raise new requirements for differentiation. This shift can be illustrated by the new and broader statement of Hydro objectives, which suggest that an important criterion for organization design is a high degree of differentiation among its components.

Corporate Cohesion: Integration

With high differentiation, there must be strong integration. As explained in Appendix I there must be ways of linking together the organization so that it functions as a coordinated whole. Integration is, by definition, conflict resolution. It is served by those devices which ensure that conflicts which need to be resolved, are resolved. Our Organization Study Team was informed that there is a lack of conflict resolution process for many issues and that relatively minor issues between departments in different branches sometimes need to be referred to the General Manager's Committee for resolution. Similarly, inter-Branch conflicts were seen as difficult to handle.

Any such deficiency in integrative mechanisms would be heightened by the application of the criterion for greater differentiation. It is important to note that integration to be appropriate must function in a way which does not disrupt desirable differentiation.

Manageability

Managerial theory has shifted in recent years away from earlier concepts of structure which emphasize modular and standardized patterns that, in theory at least, were capable of infinite expansion. At a practical level, this reflects the common-place observation that, for some economic activities, the small firm or organization is quicker and more adept at adjusting to changing conditions. For many years, the technical economics of large scale, coupled with relatively stable environments, obscured the desirability of agility and responsiveness.

Indeed, the economies of scale and the engineering technologies underlying them have tended to bias organizations toward highly standardized approaches — ones which could be administered in large scale and could take maximum benefit from specialization.

At Orangeville the Organization Study Team heard some perceptions symptomatic of this. The view was expressed that employees need more involvement in the decision-making process to promote challenge and job satisfaction. Some put the problem down to the high degree of specialization in Hydro, which they felt makes it difficult for an employee to see beyond his own activities and be involved in the overall Hydro goal; he tends to identify with his own organization unit within Hydro rather than with Hydro as a whole.

There is a current shift in management thinking, described briefly in Appendix I, which favours organization components within which individuals can grasp a set of objectives and performance standards. This will enhance individual motivation, ensure greater responsiveness to the task, and stimulate communications throughout the organization. This is all very important today, and will be more important as the breadth of interest of employees expands and as traditional motivators become less powerful.

This shift, of course, threatens the basic economies of scale which in Hydro are very significant. The question is simply whether or not more manageable sub-units can be created, each with a complete set of objectives and performance measures, without destroying the organization's ability to meet its overall objectives? Does optimization of the parts need to result in suboptimization of the whole? We consider that manageability is a critical criterion for organization for Hydro over the years ahead. We feel that deliberate steps must be taken to subdivide Corporate objectives so that

individual organizational components have a focus on manageable goals that can be fully grasped by those who direct them.

In simplest terms, this criterion suggests the decentralization of the General Manager's function as it is currently known — a decentralization to smaller units which are more manageable. At the same time, this will imply the decentralization of some of those support services that are currently provided at the General Manager Committee level. The criterion of manageability will become even more important if as forecast, Hydro increases, from some 23,000 people in 1971 to 32,000 in 1978, an increase of roughly 25%.

Productivity and Efficiency

Public submissions to Task Force Hydro included specific comments on the effectiveness of the current organization and on its efficiency. Several submissions claimed Hydro to be overstaffed, one suggesting that there could be a 10% reduction of persons employed by Hydro with more efficient utilization of manpower. A Hydro employee urged that a study of head office staff per unit of power be carried out. The appropriateness and relevance of Hydro's research to its corporate objectives has been questioned. An industrial group questioned the increased numbers of regular employees in relation to the increase in energy sold and customers added during the last few years. Several submissions dealt with the effective utilization of technical manpower. Specific criticisms were levelled at the advertising and public relations functions, suggesting overstaffing and ineffective utilization of consulting services. Recently, we have noted pointed comment in the press on the apparent ease with which Hydro functions under strike conditions.

From the beginning, we recognized both the difficulty of assessing the validity of these allegations and the necessity of dealing with them. Hydro is a large and highly complex organization with its own unique combination of technology and service capabilities which makes direct comparison with other electric utilities extremely difficult, if not fruitless. And because Hydro is a monopoly, its efficiency is not stimulated by competitive market forces in the same direct way as are commercial enterprises in the private sector. For these, and other reasons, we chose not to adopt an inquisitive approach, but to deal with questions of Hydro's productivity and efficiency in a participative way. We hoped through a cooperative review to affirm Hydro's commitment to those principles which would enhance the organization's future productivity and efficiency.

The results achieved at Orangeville indicate considerable success. Hydro managers were well aware of the criticism being directed at them and

of the difficulty facing them as a monopoly in measuring productivity. There was general agreement that Hydro should continuously seek ways to improve its performance. For example, Hydro managers seemed willing to accept the concept of a “Service Market” described in Section III as a means of assessing the cost-effectiveness of service functions.

Although the Organization Study has not produced (and was not expected to produce) direct answers to those questions, we are convinced that Hydro managers understand and accept the central place of productivity and efficiency as management objectives. We believe that our recommended organization structure will provide ample scope for the pursuit of these objectives that must be the continuing job of management and the central theme of its accountability to the Board of Directors. It is our further conviction that management and the Board, working together, are far better able to develop objectives and useful measures of achievement than is an ad hoc task force whose life will be ended before its recommendations have even been accepted let alone implemented.

Adequacy of Current Organization

We have been careful to distinguish between the capacity of the organization to cope with current problems and its ability to meet the challenges of the next two decades. Many of the concerns and issues identified for us by Hydro executives and pointed out by others are those commonly associated with very large organizations in a shifting environment. Taking all the information available to us into consideration we found Hydro to be a well managed organization which, by and large, has made good use of new technology and has coped extremely well with an impressive degree of system expansion. Our work with Hydro executives did not reveal any glaring structural or managerial defects. The question is not, however, how good Hydro is today, but how does the organization measure up against our design criteria for the decades ahead?

In our opinion, a main strength for the future lies in Hydro’s corporate cohesion or integration — a major weakness probably lies in its strategic capability. For 1982, the current pattern of organization would not, in the opinion of our Study Team, be adequate. They judge that with the exception of Clarity of Responsibility and Accountability, the current pattern could meet the needs of the 1980’s only fairly. They feel that Corporate Cohesion, which is currently a strength, could prove ultimately to be a drawback. This is because the current means of achieving integration do not permit appropriate differentiation nor are they conducive to decentralized manageability.

And finally, there is Hydro's strong tradition for high performance and public service. It is this quality more than any other which, in the end, could determine the success of Hydro's approach to organization.

FOOTNOTE

- ³. The Director of the Organization Study Team, D.V. Fowke, also acted as Assistant Director of the Role and Place Project.

SECTION III

ORGANIZATION FOR OPERATIONS

A Differentiated Organization

For an organization to be responsive to its overall role, each individual component must be adapted to its specific role or function. In Hydro, there is a broad spectrum of functions, ranging from construction management to advanced engineering design to customer service, each requiring a special range of management skills. Thus if Hydro is to adapt to its role, each component of the organization requires a different managerial framework which supports the function to be performed. There are five ways to describe these differences.

Orientation

Orientation refers to the attitudes and value systems which are appropriate for personnel in achieving the objectives associated with a particular function. These can vary widely, relating to advanced technology, operating efficiency, crisis deadlines or to customers.

Organization Pattern

This refers to the formal authority and accountability relationships within an organization unit. Some activities are best handled with fairly rigid hierarchies — ones which must respond rapidly. Others function better with flat organizations where there is a minimum of hierarchy and authority is broadly dispersed. Still others benefit from a task force approach which permits a specific combination of skills and capabilities to meet a particular set of circumstances.

Management Style

Management style refers to the informal relationships among employees and describes the norms for transmitting authority or accepting responsibility. Again, these norms should vary widely depending upon the task. For some, a highly participative style is appropriate which gives each key employee the opportunity to contribute fully to the development of objectives and the planning of their achievement. For others, a more rigid or militaristic style is appropriate.

Time Horizon

Time horizon refers to the time span within which the objectives must normally be accomplished. Some activities, such as research for example, deal with work extending over a period of years. Others, such as emergency line repair, operate within a short time horizon.

Systems for Information and Control

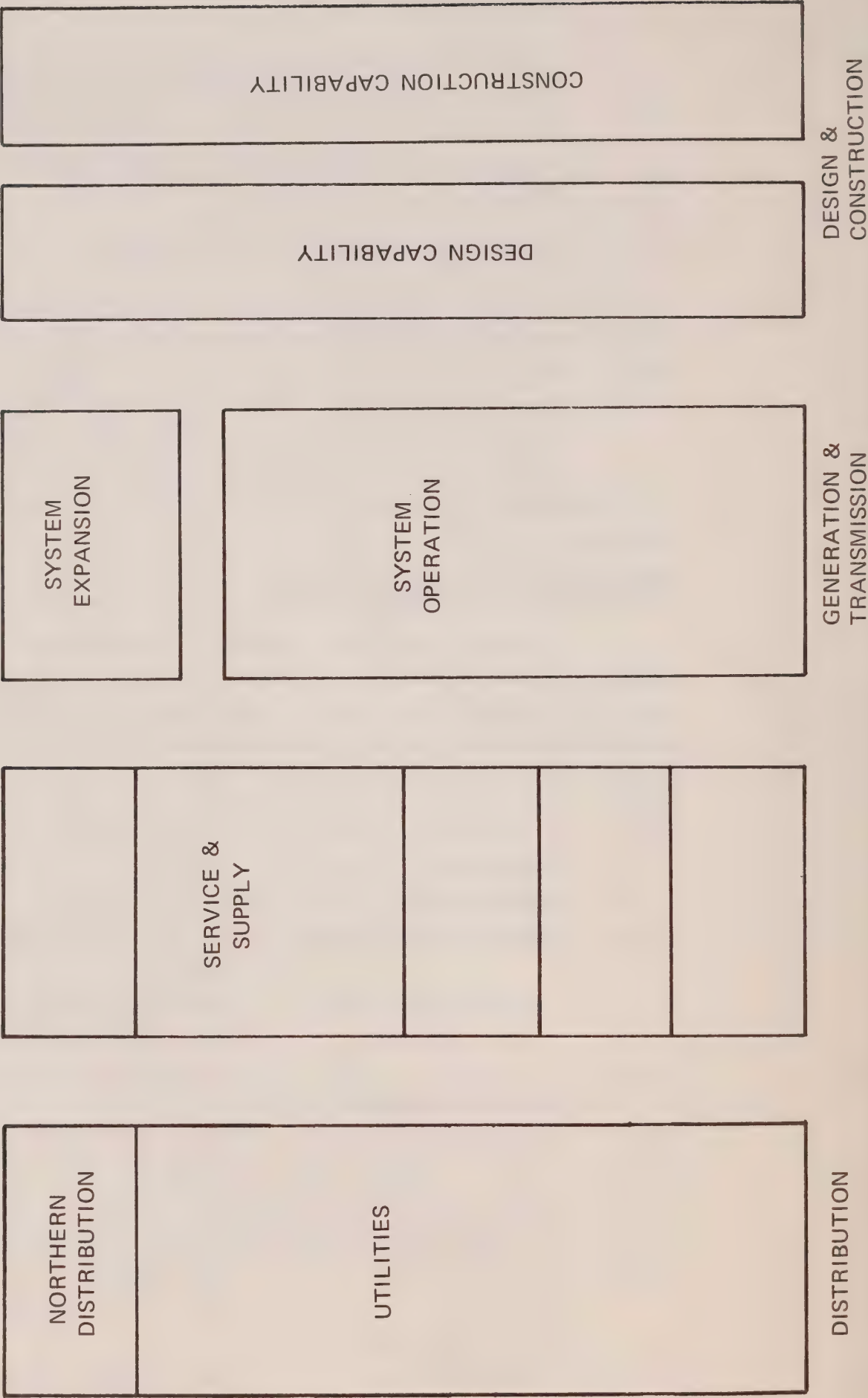
There are a broad range of supporting systems for communicating objectives and measuring performance. Clearly, the latter are heavily influenced by the particular nature of the activity. For some, time deadlines are of paramount importance. For others, costs or the assessment of the trade-offs between time and cost are critical. For still others, reliability or public response may be the critical variable.

Differentiated Functions in Hydro

Assessing the Hydro organization using these bases for differentiation, we have identified six relatively distinct organizational functions within the Hydro delivery system which includes the Hydro Corporation and the Distribution Utilities. These functions are illustrated in Figure 5 and can be described in the following way.

Distribution	
Orientation:	To local needs, to customers.
Organization Pattern:	Highly differentiated, local utilities.
Management Style:	Regionally adapted.
Time Horizon:	Short-term, responsive.
Systems:	Cost standards.
System Expansion	
Orientation:	Technological, evaluative, future.
Organization Pattern:	Flat, flexible.
Management Style:	Strategic, collegial.
Time Horizon:	5-20 years.
Systems:	Probablistic, benefit cost.
System Operation	
Orientation:	Technological, operational, efficiency, reliability.

FIGURE 5: DIFFERENTIATED COMPONENTS



Organization Pattern:	Hierarchical, geographic, linked to physical system configuration.
Management Style:	Precise, disciplined, rapid response.
Time Horizon:	Day-to-day, year-to-year.
Systems:	Costs, reliability standards.
Design	
Orientation:	Technological, advanced technological, project.
Organization Pattern:	Project centered, relatively flat.
Management Style:	Innovative, collegial, project management.
Time Horizon:	Project life, immediate to 10 years.
Systems:	Cost/effectiveness, reliability, the translation of strategic to tactical.
Construction	
Orientation:	Client, time schedule, cost, project.
Organization Pattern:	Military.
Management Style:	Authoritative, project management.
Time Horizon:	Project life, immediate to 5 years.
Systems:	“Contract” budgets, plan versus actual, project control, PERT, PERT cost.
Services and Supply	
Orientation:	Client needs, supplier markets, resources availability.
Organization Pattern:	Highly differentiated, very flat.
Management Style:	Loose, diverse, responsive.
Time Horizon:	Immediate performance, intermediate strategic.
Systems:	Revenue/expense relationships, capacity, reliability.

Operational Integration Mechanisms

Successful differentiation in an organization implies fundamental differences between its components which rule out corporate cohesion through standardization of organizational patterns, procedures or systems. Yet operational cohesion is essential if each component is to support overall corporate objectives. What is required is a series of devices which provide integration only where it is needed but which do not destroy the basic differentiation. Pursuit of greater differentiation will make the integrating job more difficult. Clearly the devices for operational integration must be carefully tailored and powerfully applied.

Figure 6 summarizes the nature of the integrating devices we see as appropriate at the operating level. Many of these are foreign to Hydro and will supplant existing methods of coordination. Each requires considerable development to ensure the cohesion necessary, along with a desirable degree of differentiation. We do not underestimate the sensitivity required in shaping these mechanisms to Hydro's particular requirements.

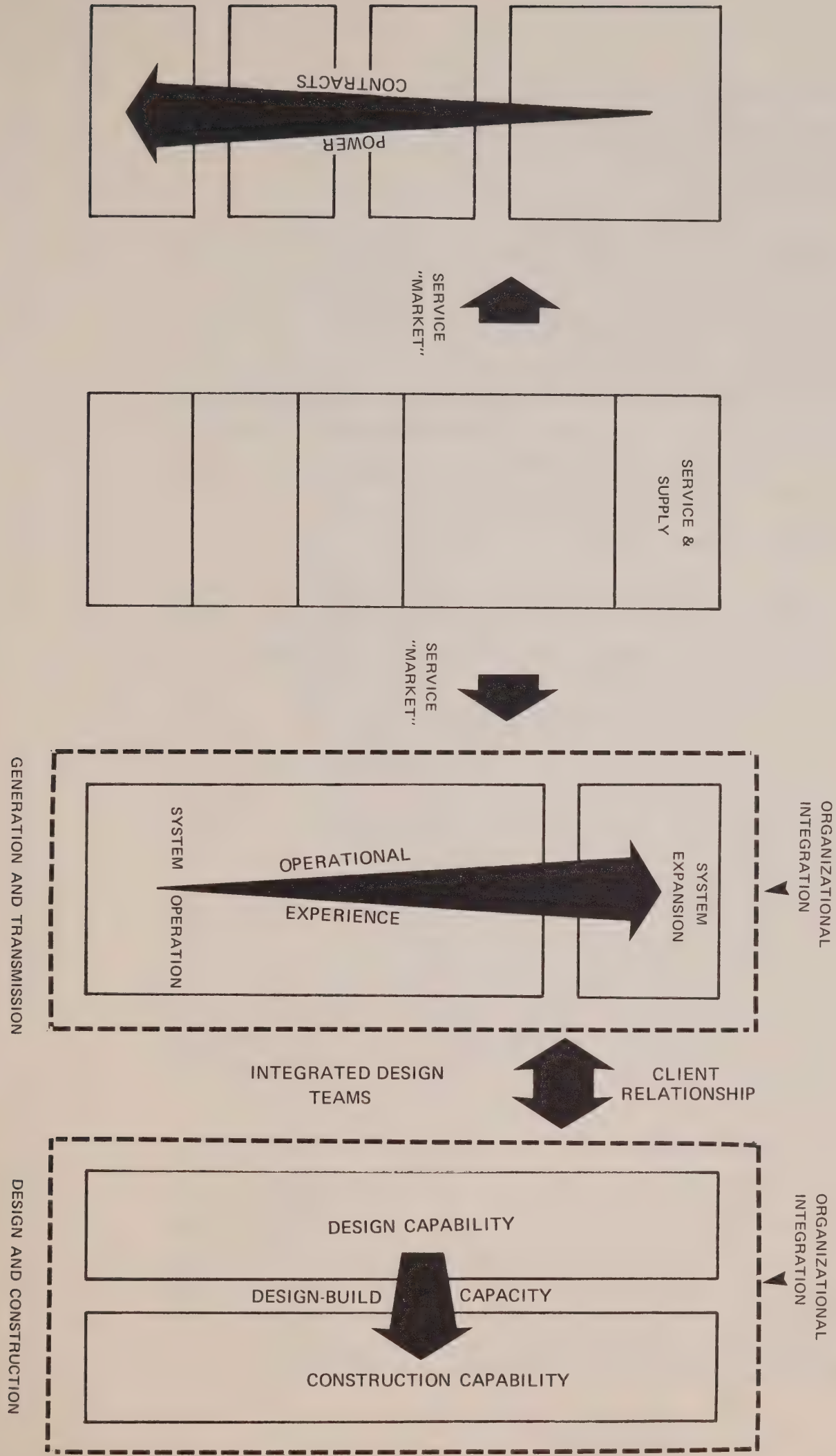
Organizational Integration

Of the six differentiated components of the total Hydro delivery system, there are two groups of two which we feel are best integrated through formal organization structures. By this we refer to the traditional pattern of defining superior-subordinate reporting relationships and defining accountability along clear lines of command. These two groups of two are Design Capability/Construction Capability and System Expansion/ System Operation. Each requires a different style of organizational integration which reflects the particular nature of the principal tasks.

For Design Capability/Construction Capability, organizational integration is required to ensure a tightly coordinated design-build capacity for Hydro. The formal structure is best conceived as a project organization which links together the Design and Construction components around specific projects. For reasons of specialization, the current pattern of project control under executives responsible for Generation Projects, Station Projects and Transmission Projects seems appropriate.

For System Expansion/System Operation, close integration is required to ensure that operational experience finds its way into the planning of new facilities. The formal organization pattern for this pair, however, will be distinctly different than for Design

FIGURE 6: OPERATIONAL INTEGRATING MECHANISMS FOR HYDRO:



and Construction. Operationally, it must build on the configuration of existing and planned activities and the operational activities at senior levels.

Client Relationship

This is one of two principal integrating devices we see linking the Design and Construction grouping with the Generation and Transmission grouping. It implies an arms length relationship in which System Expansion is the client, defining the kind, location and timing of new physical facilities to be put in place by Design and Construction. Design and Construction is to meet the requirements in a client relationship which, if properly nurtured, will permit a highly responsive relationship and ensure a clear division of accountability for the two groupings.

Integrated Design Teams

For Hydro, considerably more is required than that usually implied by a turn-key relationship between owner and designer-contractor. For example, evaluation of alternative design criteria, of alternative technologies, or of alternative equipment specifications, is required throughout the process from concept to installation. The expertise available within System Expansion and within System Operation is required as an integral part of the design-build process. Accordingly, we place heavy stress on integrated design teams as a second means of ensuring tight coordination between these two groupings. The integrated design team will permit operational experience to find its way directly into the design and equipment selection process. It will also allow for the deployment of specialists from support service areas as well. Accountability and responsibility however, must be clear at each stage. System Expansion calls the tune, but Design and Construction are responsible for the arrangement. In doing so, Design and Construction are to call on System Operation who will ultimately play the instruments.

Power Contracts

In our First Report we have recommended that the responsibility for power distribution be differentiated from the bulk power system. And, while the Hydro Corporation is to be responsible for broad policy governing distribution, managerial responsibility for distribution is to be further differentiated to enlarged local utilities to reflect regional requirements. Integration is required among these differentiated utilities, and between them and the

policy level of the corporation. Such integration is simply a case of conflict resolution — of resolving those differences in order to make the system a cohesive whole. In our First Report we have recognized this need in our recommendation to the effect that:

1.30 The Hydro Corporation give effect to its policy and that of the Provincial Government through contracts with each utility, such contracts to reflect a working agreement between the Corporation and the utility.

These contracts will serve as a principal integrating device reflecting agreement reached between Hydro and individual utilities on such topics as:

- capital budgets
- bulk power and retail pricing structures
- delivery conditions
- security of service
- terms of payment
- marketing policy
- financing of distribution utilities
- reliability standards
- environmental requirements

Service “Market”

The service and supply component is to meet those needs of the other differentiated components of the power system — both wholesale and retail in cases where economies can be effected through central provision. The decision for making use of this central capability must lie in the hands of those with line responsibility for the various components of the power system. Decisions regarding the kinds and levels of service required from the service and supply component will likewise be made by managers in local utilities or in the bulk power system. A main conflict or integrating problem is the determination of the appropriate level of capacity to be carried within the service group. To some degree this will have to be specified through management policy, but this approach circumvents the accountability and responsibility of line managers.

To the degree possible, therefore, we favor the use of a service “market” to match supply with demand. This would require each central service to recover a pre-determined proportion of its costs through charges to its “customers”. The market would encourage efforts by the providers of service to adapt their methods to the

needs of their customers in terms of quantity, quality, delivery, price and reliability; it would also allow the customer to buy service outside if he could get better terms. Capacity to provide service will tend to adjust to what the market requires. Management of the market will focus on the adjustment of capacity to need, and a cost-effective internal service capability will tend to evolve.

There are, of course, some services which do not lend themselves to such market regulation but do benefit from central provision. For these, the corporation as a whole becomes the customer, and the fiscal judgements will have to be made in a program budgeting context.

It is worth noting, as well, that slavish reliance on the service market to solve all strategic and capacity issues for services is inappropriate. There will be some cases where cyclical patterns will not permit target cost recovery in the short run in which customers should look to outside suppliers to fulfill their needs. The service market concept will be explored further by Task Force Hydro in a forthcoming report on 'Make or Buy' Policy.

A Mission Concept for *Divisions*

This consideration of differentiation and operational integration led our Study Team to suggest four principal missions for Hydro.

- *Distribution.* To distribute electrical energy safely, economically and in a manner responsive to local needs and conditions.
- *Generation and Transmission.* To plan, operate and maintain the system for generation and transmission of bulk power and to ensure adequate, economic provision of electric energy in bulk form, consistent with reliability, safety and environmental standards.
- *Design and Construction* To design and construct facilities for the generation, transmission and distribution of electric energy
- *Support Services.* To provide support services to the three related missions.

Corresponding to each of these missions, we envisage a *Division* of the Hydro corporation. We are using *Division* in the industrial sense to describe main organizational groupings corresponding to the missions. Existing Hydro divisions are defined at a lower level of aggregation and will be referred to in plain type.

Each *Division* is to be as self-contained and as free-standing as possible, each is to have its own general manager who carries full responsibility for the performance of the *Division*, and each is to be highly oriented to its mission. The performance of each *Division* is to be measured against criteria which reflect the specific orientation and role of the *Division* and the *Divisional* objectives. Consistent with this differentiated accountability, each *Division* is to be allowed a high degree of autonomy in devising the most appropriate methods of organization and operation. To facilitate manageability, our Organization Study Team recommends that each *Division* have its own personnel and controllership function to ensure that the key managerial systems associated with these functions can be adapted to its particular requirements.

Distribution *Division*

The focus of the Distribution *Division* is on Power Contract management. Its role is to ensure that Hydro policies are reflected in the operating policies of the distribution utilities. The task is to work out practical agreements with the Utilities which support local needs and give effect to corporate policy. The Distribution *Division* as the main link between the Hydro Corporation and the Utilities is a major integrating mechanism for the delivery system as a whole. It will continue to operate those parts of the Power District which have not been brought under the aegis of a rationalized regional Utility, and it will continue indefinitely to operate the Power District in Northern Ontario.

In the long-term, a proportion of the Hydro distribution-oriented complement will be shifted to the enlarged utilities. For the most part, the rationalization of utilities will follow the implementation of new Municipal Governments and will extend over at least a decade. This being so, the actual shift of personnel will be minimal and staged in a manner which will keep disruptions to a minimum.

At the same time, we envisage the transfer of the bulk power system maintenance function to the new Generation and Transmission *Division*. At current staffing levels, full implementation of this shift would move some 3,000 positions out of Regions and Marketing. Again, however, this shift will be gradual, being dependent upon the transfer of responsibility for parts of the Power District to Regional Utilities.

We envisage a diminishing complement for the Distribution *Division* as managerial responsibility is shifted to local utilities or

transferred to other *Divisions*. Figure 7 summarizes, in terms of functions, what we have in mind.

Generation and Transmission *Division*

The function of the Generation and Transmission *Division* is the provision of electric energy where and when needed by distribution utilities. In the planning of the physical system, it is to work within a 20-year time horizon. It is to act as client to the Design and Construction *Division* in ensuring that appropriate physical facilities are provided. In addition, the *Division* is to be responsible for the day-to-day operations of the bulk power system, including the maintenance and operation of transmission lines and generation facilities, both thermal and hydraulic.

To meet these responsibilities, the Organization Study Team has recommended that the *Division* is to have its own controllership and personnel functions and to operate through an appropriate regional organization pattern. Figure 8 illustrates, in functional terms, a possible configuration for the Generation and Transmission *Division*.

Design and Construction *Division*

The focus of the Design and Construction *Division* is upon capital project management. Its role is to put in place the facilities needed by the Generation and Transmission *Division* and, if desired, by distribution utilities. Its emphasis is to be upon integrated project management, making use of both Hydro and private Design and Construction capabilities in accordance with Hydro's 'Make or Buy' policy which will be the subject of a subsequent Task Force Hydro Report. Through its integrated design teams the Design & Construction *Division* will draw together the appropriate skills and capabilities from other *Divisions* in Hydro and from the private sector to ensure a fully cost-effective response to the needs of its clients.

As with other *Divisions*, the Organization Study Team has recommended that Design and Construction *Division* have its own controllership and personnel functions which will support the specific requirements of large and complex capital projects. Figure 9 illustrates, in functional terms, the composition of the *Division* visualized by the Study Team.

FIGURE 7: FUNCTIONAL CHART - A CONCEPT OF THE DISTRIBUTION "DIVISION"

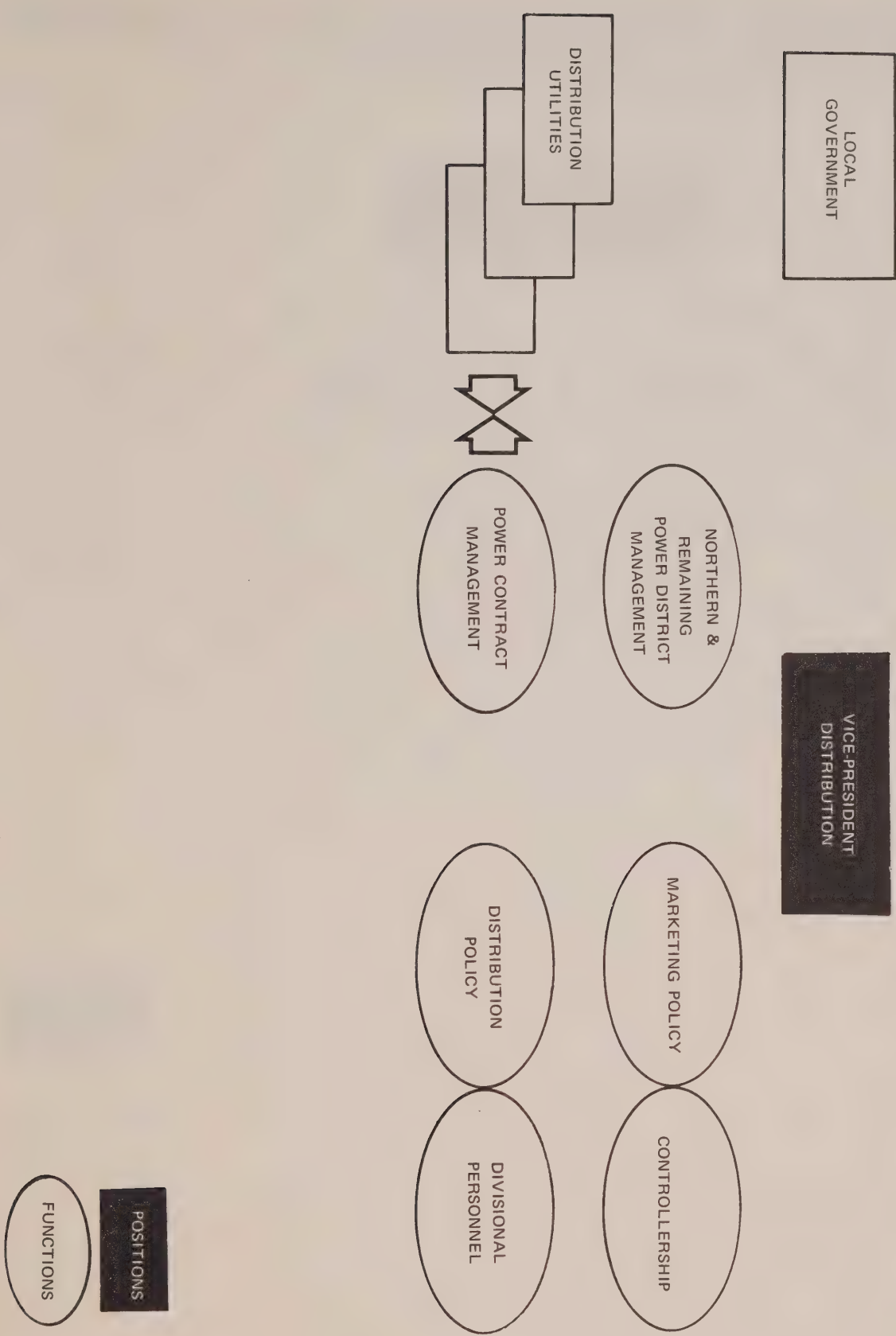


FIGURE 8: FUNCTIONAL CHART - A CONCEPT OF THE GENERATION AND TRANSMISSION "DIVISION"

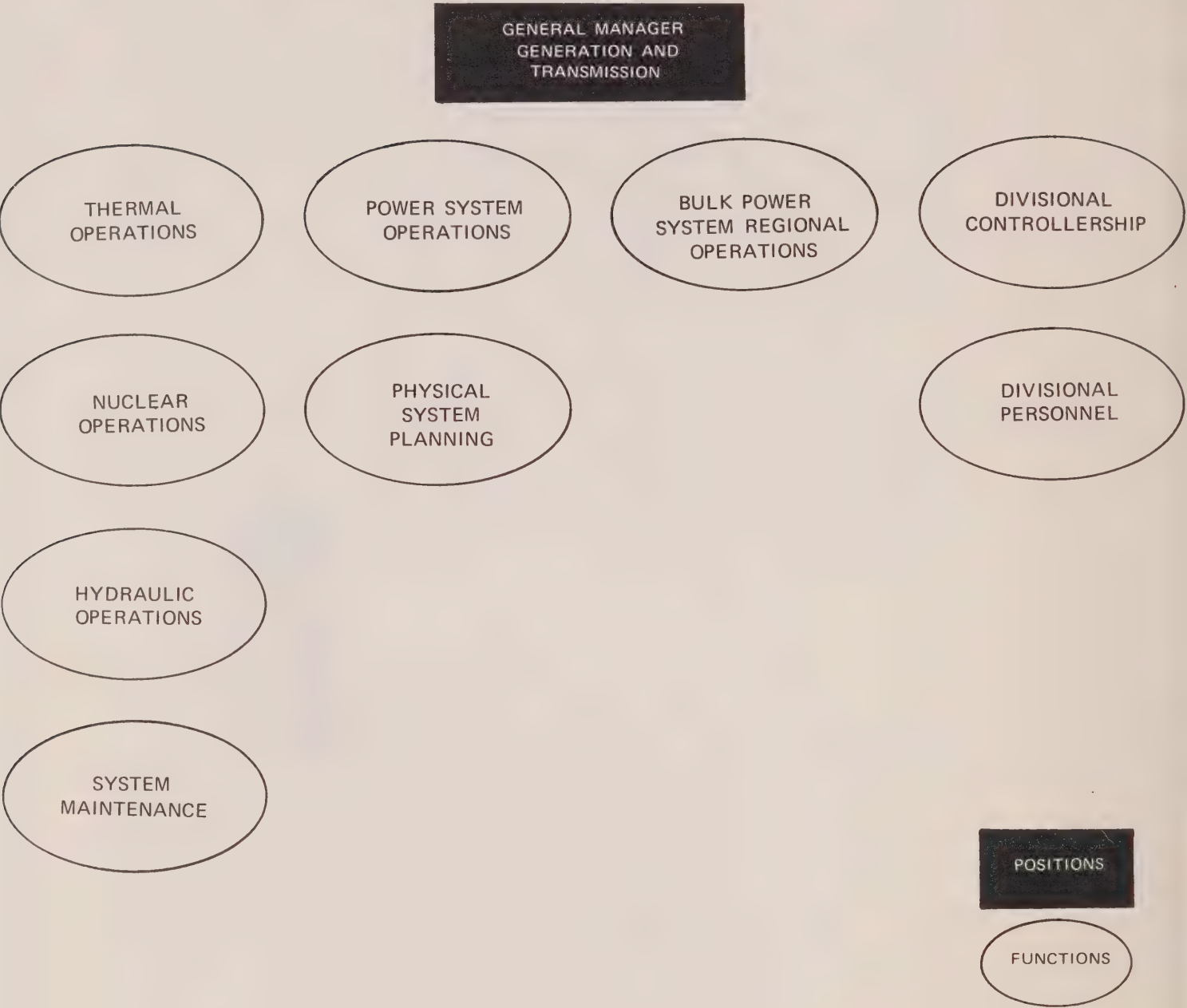
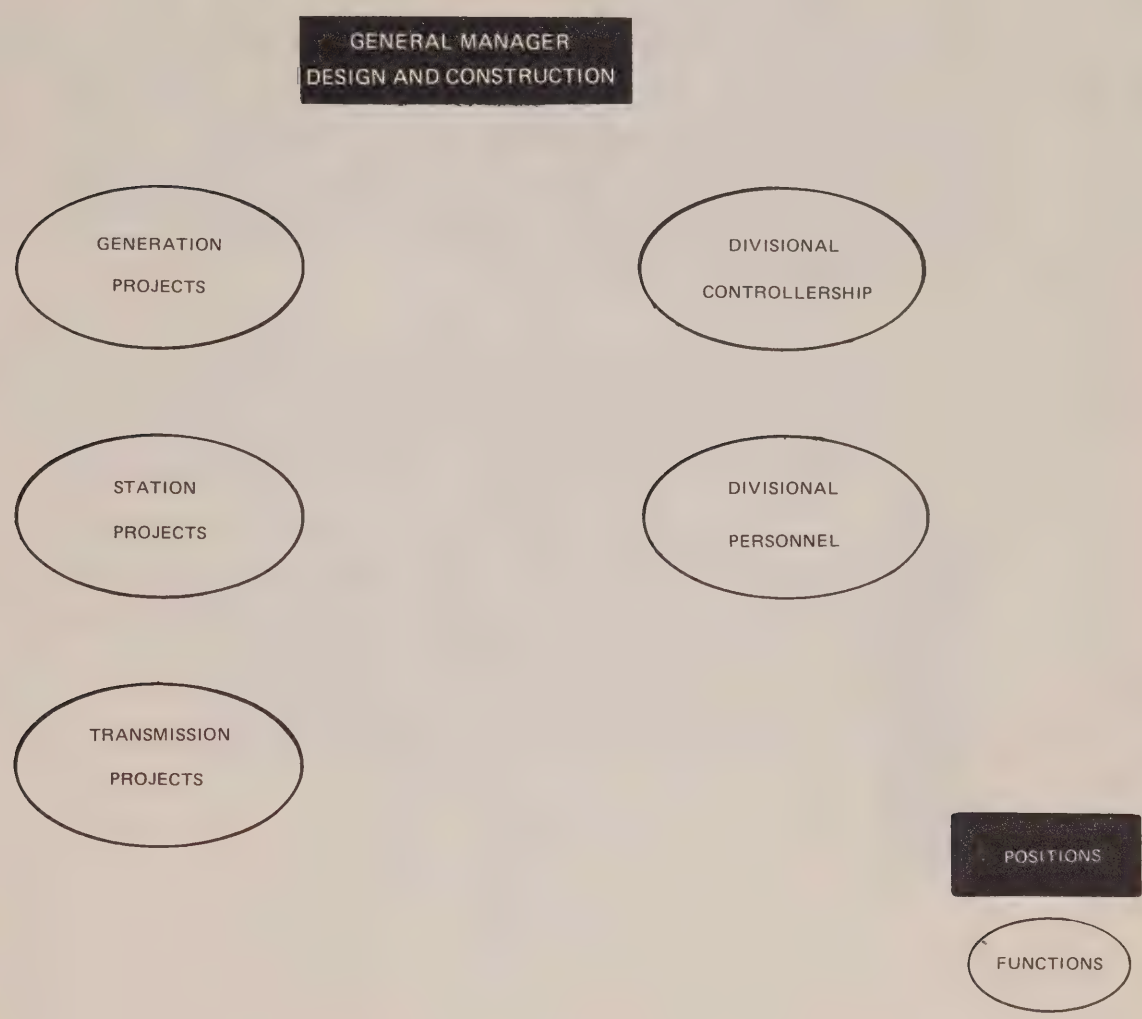


FIGURE 9: FUNCTIONAL CHART - A CONCEPT OF THE DESIGN AND CONSTRUCTION "DIVISION"



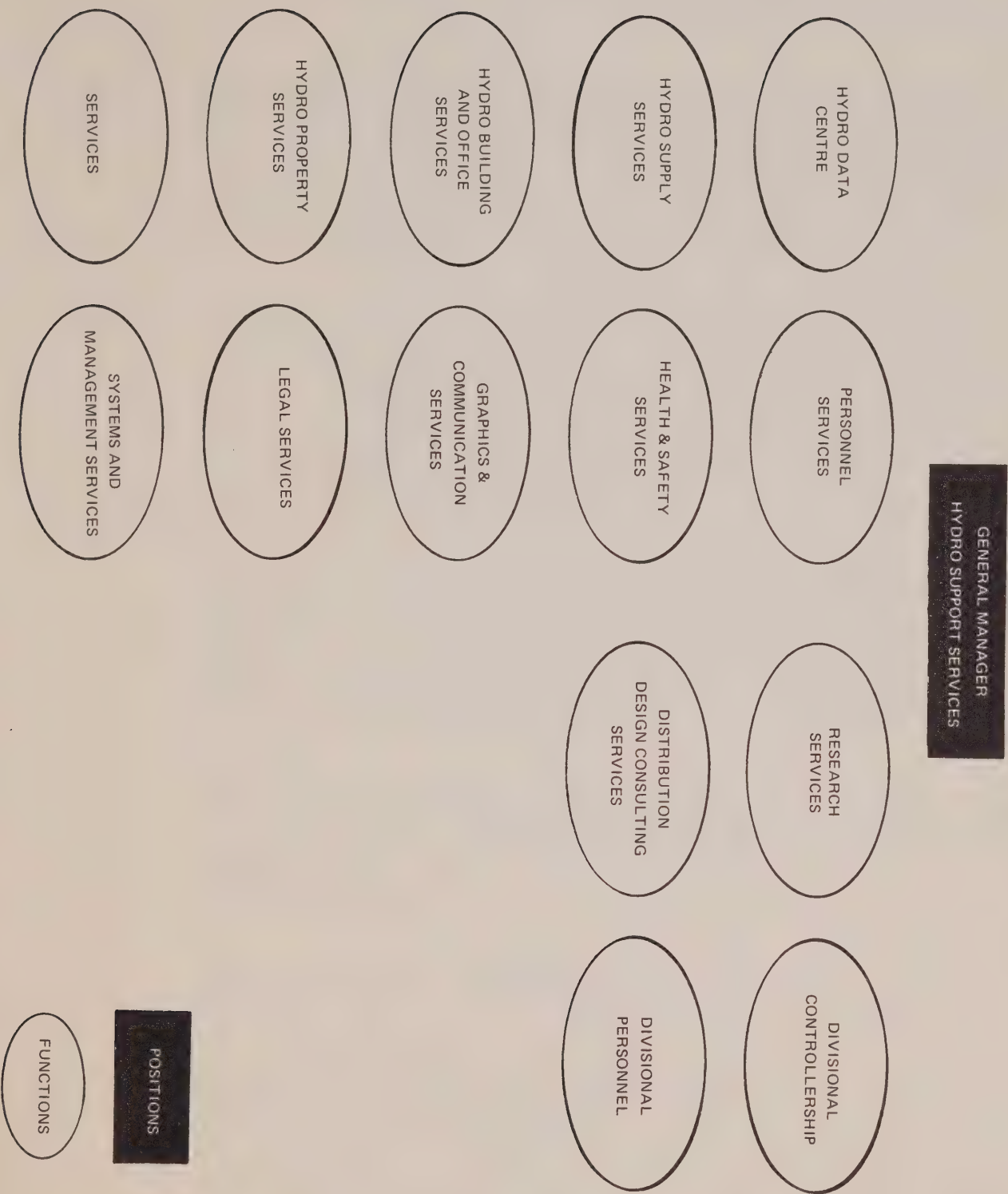
Hydro Support Services *Division*

The role of the Hydro Support Services *Division* is the provision of those services and supplies which can be most economically delivered on a combined basis for Ontario Hydro and for distribution utilities. Its focus is on its customers and their requirements. It is made up of a wide variety of internal services, ranging from property to personnel, each with the common theme of meeting customer requirements at a cost which they or the corporation, for strategic reasons, are prepared to pay. Figure 10 suggests the functions which might be encompassed within the Hydro Support Services *Division*.

In addition, the *Division* is to have responsibility for developing and managing external markets for the Hydro system in support of the corporation's 'Make or Buy' and technological policies.

The organization pattern within the *Division* is envisaged as a loose, conglomerate style, with each component highly differentiated and adapted to its particular specialty and requirements. The principal internal integrating devices emphasize policy frameworks and revenue-expense control systems which match capacity to the demand for which customers are prepared to pay.

**FIGURE 10: FUNCTIONAL CHART - A CONCEPT OF
THE HYDRO SUPPORT SERVICES "DIVISION"**



SECTION IV

CORPORATE INTEGRATION

The Corporate Office

Our concept of organization for Ontario Hydro envisages a strong Corporate Office. This is a new and important integrating device, tying together the decentralized general management responsibilities of the four *Divisions* into a cohesive whole. If the role of *Divisional* general manager is viewed as performance-oriented, and the role of the Board as policy-oriented, then the Corporate Office's responsibilities are strategic.

This is a departure from Hydro's present organization. Currently, the general management function is located at the apex of the organization. The General Manager coordinates and integrates the functionally-oriented Branches of Personnel, Finance and Computers with the operationally-oriented branches of Engineering, Regions and Marketing and Services. The principal coordinating device is the General Manager's Committee, made up of the Assistant General Managers responsible for each of the Branches. Because of the functional orientation of Assistant General Managers, the Committee's deliberations inevitably involve the integration of functional and operational matters. It might be argued that there is a conflict of interest between an Assistant General Manager's responsibility for his function and his responsibility to advise the General Manager on strategic issues.

By contrast, the new concept seeks a minimization of conflict between operational and strategic issues by freeing the Corporate Office to focus on overall corporate objectives. Key to the concept is the decentralization of the general management function to executives with responsibility for each of the four *Divisions*.

The focus of the Corporate Office, then, becomes primarily strategic. We see it as having four primary roles.

- First, it is to establish the policy framework for the corporation and the objectives for each of the operating *Divisions*. To do so, it must assist the Board in devising a set of corporate objectives which represent the best balance between operational and broad policy considerations. Because the Corporate Office has access to operational information, it carries the onus for providing a balanced analysis of strategic alternatives for the Board. Within this overall framework of corporate objectives, the Corporate Office has responsibility for devising a set of standards by which the performance of each *Division* can be measured.

- Second, the Corporate Office is to ensure that *Divisions* comply with the objectives and policies laid down for them. This active challenge of performance is an important function of the Corporate Office and the evaluation is not clouded by functional conflicts of interest.
- Third, the Corporate Office is to provide specific support to the operating *Divisions*. Some of this will be done through the Hydro Support Services *Division*, while other aspects will be delivered directly by the Corporate Office itself.
- And fourth, the Corporate Office has a major role in defining just what businesses the several *Divisions* will be in. The criteria for these judgements are varied, but they include both broad policy considerations and the assessment of performance and productivity of each *Division*. This function of the Corporate Office will encourage the shifting of resources from low productivity to high productivity areas.

To fulfill these roles, the Corporate Office must be detached from day-to-day operations. Part of the necessary detachment is attitudinal. In discussing these ideas with Hydro executives, the Organization Study Team suggested that it might be appropriate to locate the Corporate Office away from the other activities of Hydro. The way in which a corporate office is introduced can have an impact on attitudes as well. It is doubtful, for example, if a gradual transition from the General Manager's Committee to a Corporate Office would work: an abrupt change is more likely to be effective.

The function we envisage for the Corporate Office is one that is often thought of as belonging solely to the President. While we have no intention of detracting from the responsibilities of the President, we do feel that in an organization as large and complex as Hydro, the President must have assistance from senior executive officers of the enterprise and that they must work together continuously on corporate matters. We think of this Corporate Office as being, in a sense, an extension of the President to include a top team of which the two senior members will be the Vice President — Bulk Power System and the Vice President — Distribution. These two officers while retaining their line responsibility for the *Divisions* reporting to them, will to the maximum extent possible devote their energies to assisting the President with the Corporate Office leaving the General Managers of their *Divisions* in charge of continuing day-to-day operations.

Strategic Direction

In the Corporate Office the Organization Study Team visualized a President, a Vice-President Distribution and a Vice-President Bulk Power System, with primary responsibility for directing the affairs of the corporation, as indicated in Figure 11.

President

In our First Report we recommended that the President be a member of the Board of Directors of the Hydro Corporation and that:

- 1.22 The President be responsible to the Board for directing the affairs of the Corporation in accordance with goals and objectives established by the Board.

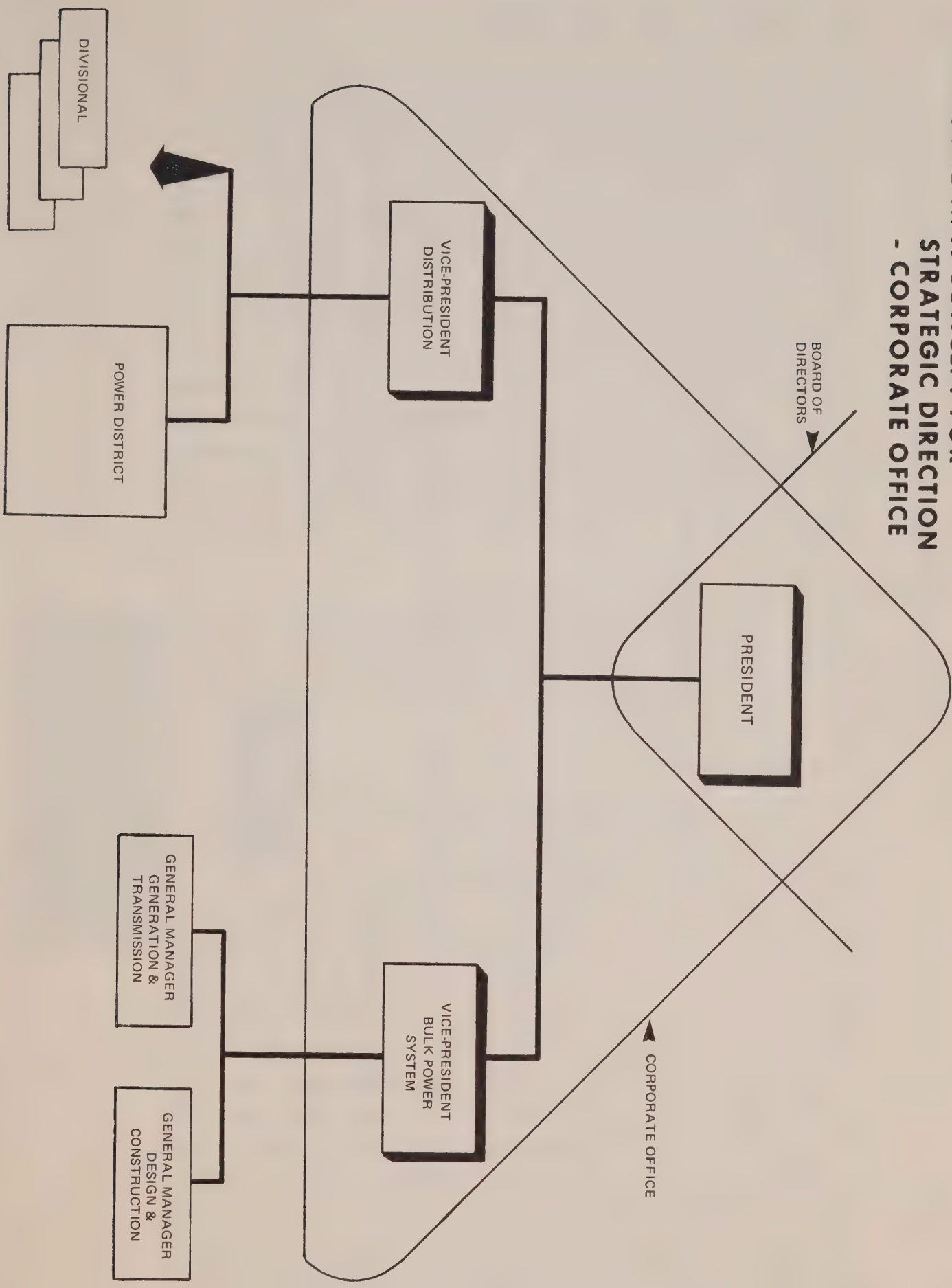
As the managing director, the President has responsibility for the translation of corporate objectives and policies into *divisional* objectives and strategies, and for providing the Board with the information and analysis it requires to shape consistent policy.

Vice President, Distribution

The Vice President, Distribution is responsible to the President for directing the implementation of Hydro policy in the distribution side of the power system. He has responsibility for both that portion of the distribution system operated by Hydro and that managed by local and regional utilities. For the latter, his role is to ensure that Power Contracts are drawn between the distribution utilities and Hydro which reflect a workable compromise between regional requirements and overall corporate policy. He has primary responsibility for maintaining a cooperative relationship between Hydro and its distributors. His senior position will ensure that the views of local utilities find their way directly into the strategic deliberations of the corporation. With respect to the enlarged and consolidated municipal utilities, he is to delegate as many functions as possible to them and to maintain close working relationships with them on policy through his Regional Managers.

For the foreseeable future, he will carry the additional responsibility of aiding the process of rationalization of the distribution system in the province so that the principal benefits accrue to the citizens and consumers of power in Ontario with minimal disruption.

**FIGURE 11: A CONCEPT FOR
STRATEGIC DIRECTION
- CORPORATE OFFICE**



Vice President, Bulk Power System

The Vice President, Bulk Power System is responsible to the President for directing the implementation of Hydro policy for generation, transmission, Design and Construction. Reporting to him are the *Divisional* General Managers for Design and Construction and Generation and Transmission *Divisions*. He is responsible to the President for the effectiveness of the bulk power component of the Hydro system in meeting the corporate objectives laid down by the Board. He brings to the Corporate Office the special knowledge and experience associated with the provision and operation of the major generation and transmission facilities required to serve the distribution system. He has responsibility for coordinating, at the strategic level, the planning, Design and Construction of new facilities with the operation and maintenance of existing plant. Through his General Managers he will ensure that the *Divisional* objectives are in harmony with corporate policy and that performance is in line with these objectives.

Corporate Staff Roles

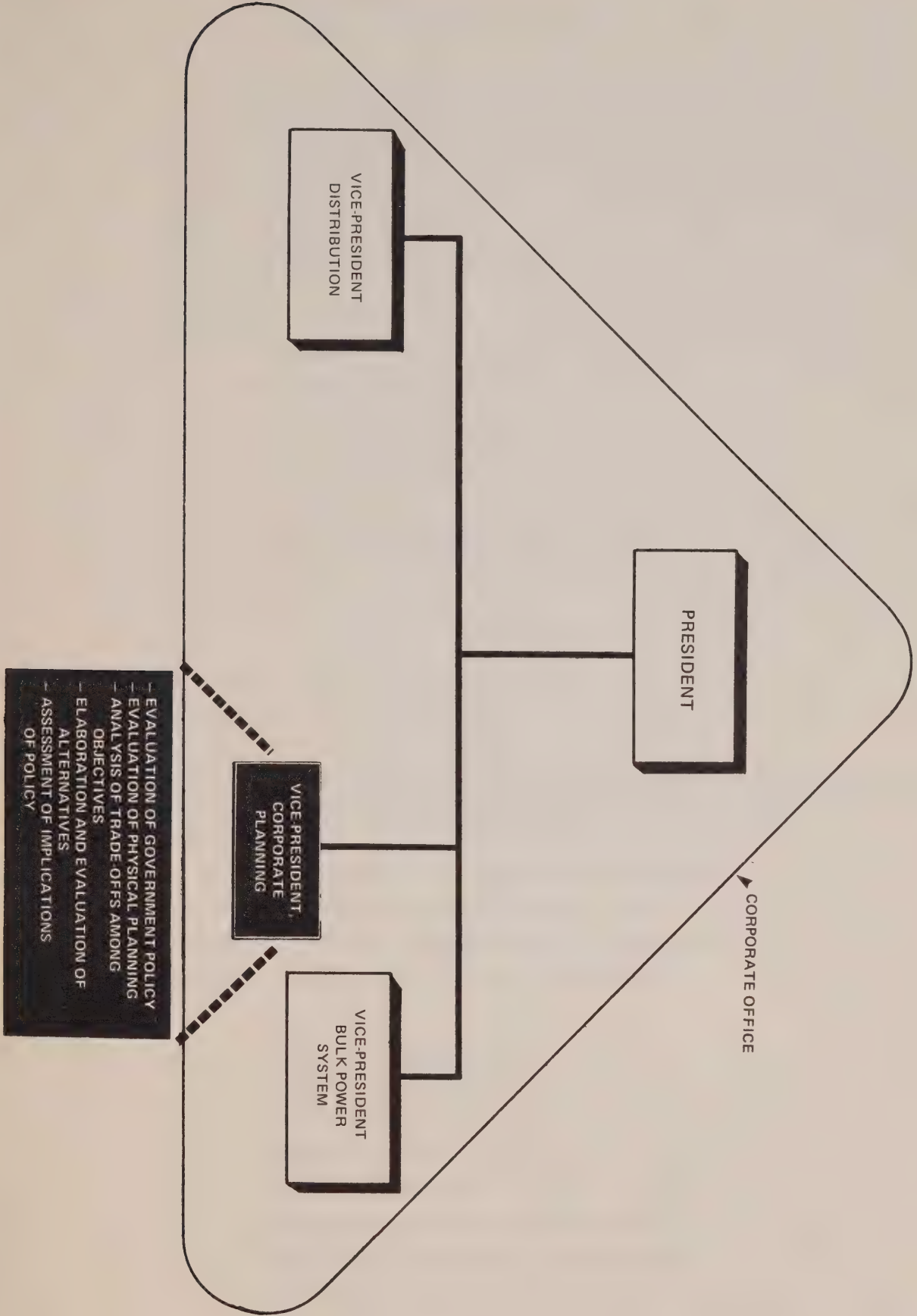
We envisage a number of staff roles supporting the President and his two principal assistants in the strategic direction of the Hydro Corporation. We discuss the advantages and disadvantages of alternative ways in which their roles might be organized.

Corporate Planning

Our design criteria placed heavy emphasis on strategic planning within Hydro. We are of the view that an integrative analytical capacity is essential to support the strategic deliberations of the Corporate Office and to provide the basis for the development of policy in the Board. Accordingly, as indicated in Figure 12 we envisage a Vice President, Corporate Planning for Ontario Hydro.

In simplest terms, the role of the Vice President, Corporate Planning is integrated analysis. His job is to bring together the technological, sociological and political implications of policy and strategic alternatives for the corporation. To support the President's role in providing information to the Board, the Vice President, Corporate Planning would undertake detailed analysis of government policy in terms of its impact on Hydro. The ten basic policy issues and the new set of corporate objectives defined in Report Number One would be the focus of his analysis. Conceptually, these new objectives are in competition with one another and analysis of the trade-offs among them requires a

**FIGURE 12: CORPORATE OFFICE
VICE PRESIDENT, CORPORATE PLANNING**



highly complex linear programming-style analytical framework in order to develop the consistent set of objectives required.

Careful assessment of the implications of any proposed change in policy is also essential. What are the implications, for example, of a determined shift towards a greater sub-contracting of construction? What impact would such a policy have on the scheduling of new plant, on costs, on manpower policies, or on financing requirements? Such assessment must be on an integrated basis so that all aspects of policy, technical, economic and sociological, can be evaluated concurrently. It is clear, then, that the skills required to carry out the necessary analysis will be spread widely throughout Hydro, the distribution utilities and Government. We see the Vice President Corporate Planning drawing together the available analytical capacity, not duplicating it. His role is to set up Task Forces which integrate the skills, knowledge and technology for analysis to bring them to bear on the issues. In some cases, this can be accomplished by making use of well defined resources such as the capability for simulation of physical plant available in System Planning or the econometric models of the Provincial Government. In other cases where 'Make or Buy' strategy, for example, was being evaluated, Task Forces would be drawn from several areas within the Corporation. This will prove to be a challenge to Hydro, for our Study Team learned that too often planning is conducted by groups in isolation from others in the organization. We are aware, as well, of the failure of corporate planning in many corporations. We are convinced that success lies in developing the corporate planning role as an integrating device, which draws together the best analytical capability available across the corporation to produce consistent corporate objectives to which there can be a total corporate commitment.

We have already drawn attention to the need for a new "positive-sum" working relationship between Hydro and the Ontario Government in which a solution is sought which serves the objectives of all parties. It implies a full sharing of information and a creative search for such solutions. We see the Vice President, Corporate Planning as the catalyst for developing this approach to policy assessment between the Government and Hydro. It will be his responsibility to develop the level of trust and style of working relationship which can make this a reality.

We emphasize this integrating role, and foresee a minimal staff in the Office of the Vice President, Corporate Planning.

Finance and Personnel

As previously mentioned, the Organization Study Team has recommended the decentralization of the controllership portion of the financial management function and the personnel function to support the decentralization of general management to operating *Divisions*. While this proposal requires further study a preliminary assessment for finance suggests the following functions would be appropriately lodged in *Divisions*:

- cost control;
- input to corporate level accounting systems;
- cost accounting;
- budgeting;
- inventory control;
- accounting systems and methods.

A further group might better serve all *Divisions* on a service basis through the Hydro Support Services *Division*:

- accounts payable;
- accounts receivable;
- banking routine;
- inventories;
- asset accounting.

But there remain important finance functions which should be a part of the Corporate Office. These include:

- Treasury: financing and money management;
- internal control policy;
- accounting practice standards and advice;
- compliance review mechanisms;
- financial forecasting;
- corporate accounting;
- internal auditing.

Similarly, for personnel management, there are functions which the Organization Study Team feels should be moved to the *Divisional* level to support the general management responsibility. Again, further study is required, but to a significant degree, the decentralized assignment of personnel officers in Hydro at the present time is in line with our concept. For the personnel function, our Organization Study Team has proposed a change in emphasis and a shift in the focal point of responsibility. They felt that the personnel function in the new *Divisions* should be more senior and more influential. This is consistent with the assumption

of more responsibility for the *Divisional* General Managers, and greater differentiation of *Divisions*. This should result in a less standardized approach to personnel administration reflecting different requirements from *Division* to *Division*. Perhaps the point is reinforced by the idea that much of what is now in the Personnel Branch be transferred to the Hydro Support Services *Division* to meet the needs of all areas of the corporation on a service basis. This would place the personnel services in a responding position, subject to the line authority of clients with operating responsibility. This shift is subtle, but very important. The following functions might be contained within the Hydro Support Services *Division*:

- Employee Relations
 - job evaluation
 - personnel data
 - suggestion plan
 - Statistics Canada;
- Manpower Resources and Development
 - Hiring service for junior engineers and non-professional personnel
 - senior recruiting on specific assignments
 - personnel research
 - Conference and Development Centre
 - trades training, for both Hydro and utilities;
- Health and Safety
 - medical services
 - medical research, industrial health
 - workmen's compensation;
- Security
 - security planning and guidance
 - security promotion, training, investigations.

At the Corporate Office level, the following personnel functions would be required to give consistency across the corporation, to facilitate strategic and tactical coordination and to further a positive and consistent set of personnel policies.

- Labor relations policy and negotiation;
- Employee relations
 - pay programs
 - benefit programs
 - hiring policies

management development policy and programs
 sick leave and working conditions
 security policy.

These shifts would leave a much reduced Corporate Office role in both finance and personnel, with emphasis on broad policy for the deployable resources of the corporation. There are two alternative ways of organizing to meet these needs, as indicated in Figure 13.

A Vice President of Finance and a Vice President of Personnel might be appointed to provide policy development capability in each area at the corporate level. This approach, which was almost uniformly favored by Hydro executives in our review, has several advantages. Perhaps most important, it is traditional and easily understood. It would affirm to Hydro employees that policy for personnel is a distinct and high priority item. In addition, it would ensure that specialized and undivided attention would be given at the corporate vice presidential level to each of these functions.

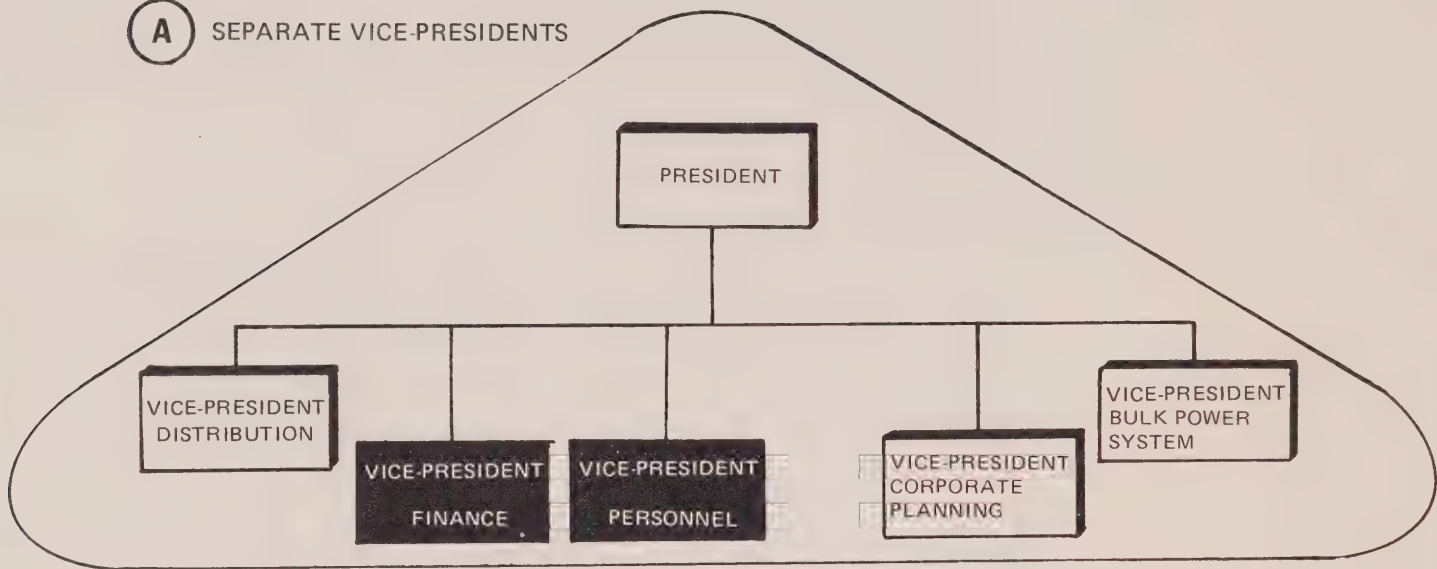
Alternatively, the corporate finance and personnel functions might be combined in a single office of Vice President, Corporate Resources. This post would focus on the strategic policies for developing and deploying the two principle fluid resources of the organization. In addition, attention could be given to alternative means of meeting resource requirements, including the systematic development of private sector capabilities. Of the two alternatives, this is the one favoured by our Organization Study Team, since they consider it provides the kind of strategic emphasis which is essential in the Corporate Office. A single position serves to restrict the number of Vice Presidents in Corporate Office, enhancing its ability to function in a tightly integrated manner. We are persuaded that the decentralization of many of the routine administrative functions and service activities to the *Divisional* level reduces the managerial requirement. However, we recognize the morale implications of eliminating a corporate-level role specifically identified with personnel.

Hydro Support Services

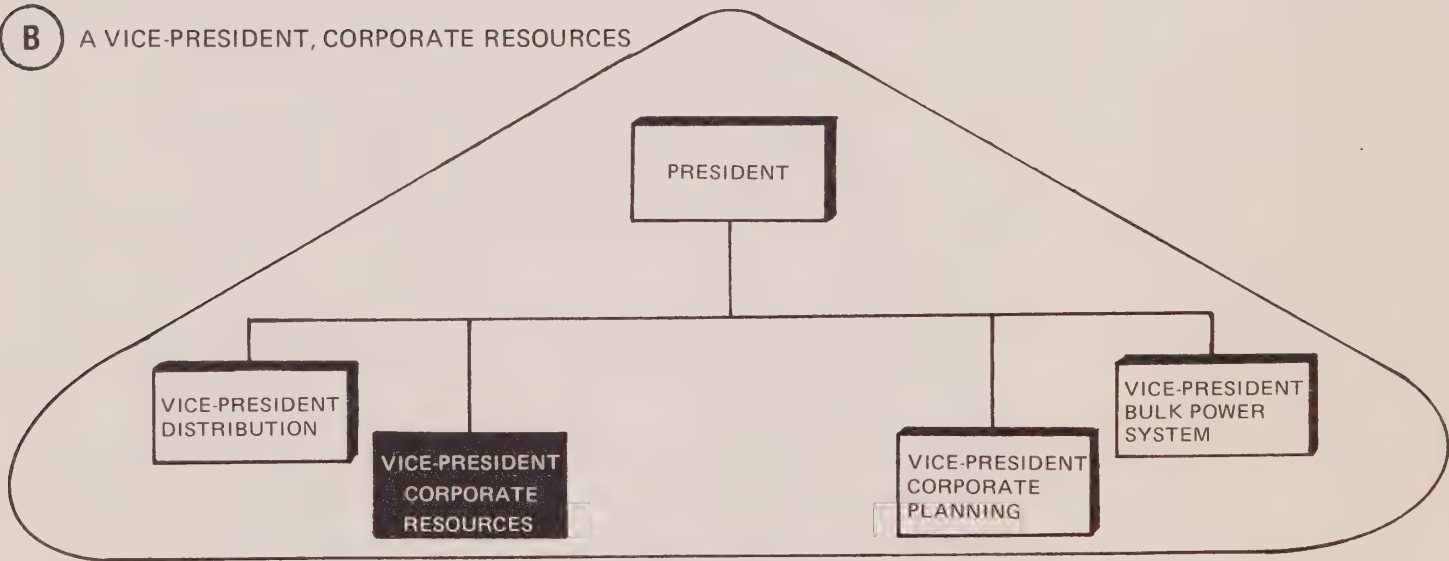
The reporting relationship of the Hydro Support Services *Division* can be specified in several ways. There are advantages and disadvantages to each, depending upon the emphasis intended for this group. The *Division* is conceived as a large operational group comprised of some 2,000 employees. It is, according to the

**FIGURE 13: CORPORATE OFFICE
ALTERNATIVES FOR FINANCE AND PERSONNEL**

A SEPARATE VICE-PRESIDENTS



B A VICE-PRESIDENT, CORPORATE RESOURCES

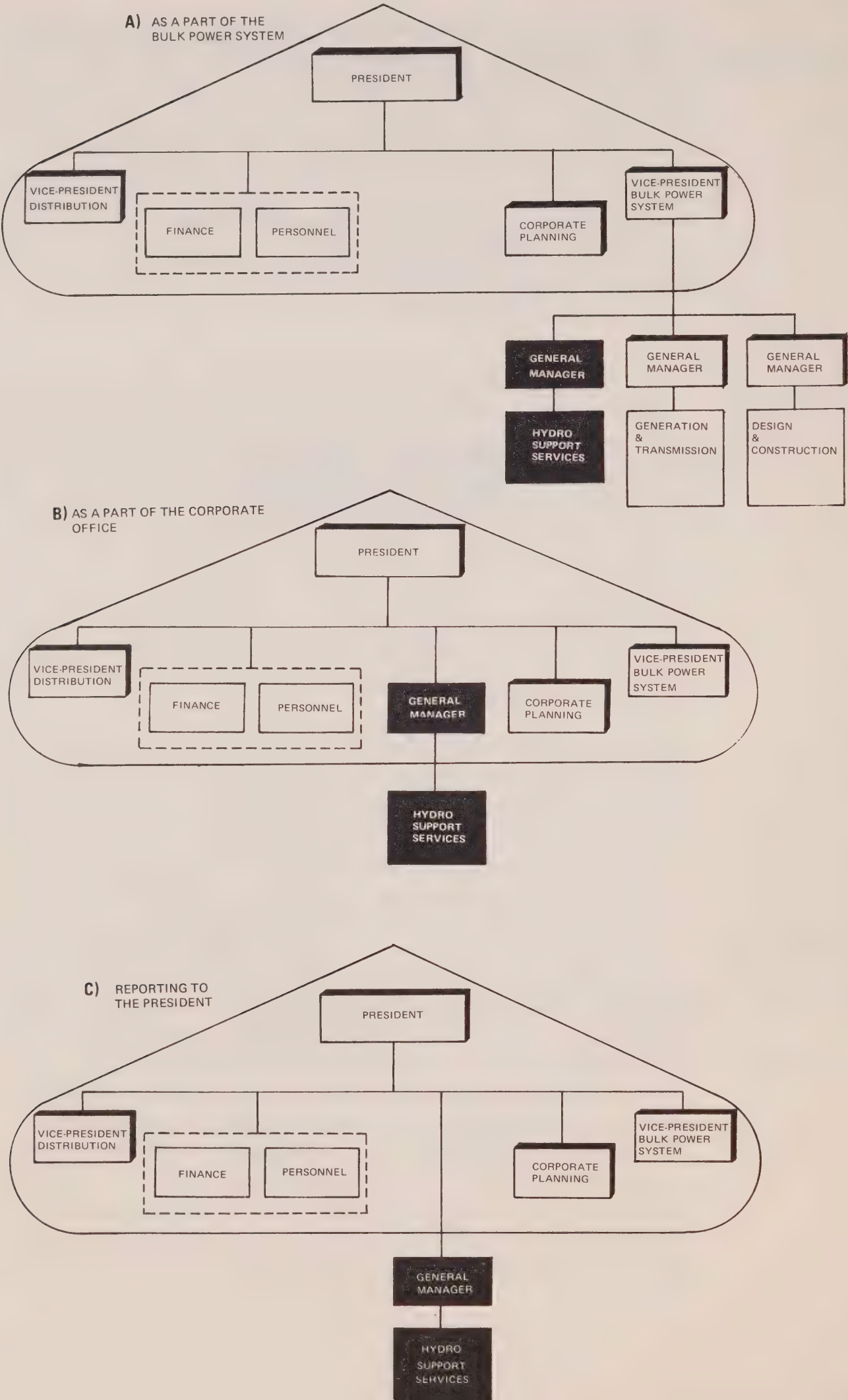


concept developed by the Study Team, to be directed by a General Manager who has, within his sphere, the controllership and personnel functions necessary to carry the general management responsibility. It is a service *Division* with its main integration with the other *Divisions* being the service market. Accordingly, very little operational coordination at senior level is required on a day-to-day, month-to-month basis. This is because the members of each service group within the *Division* actively maintain coordinating and working relationships with their customers. We have identified three alternative reporting relationships, as shown in Figure 14.

First, the Hydro Support Services *Division* might report to the Vice President, Bulk Power System. This alternative reflects the fact that most of the *Division's* customers are to be found in the two main operating *Divisions* of the bulk power system. This was the initial proposal made to Hydro executives. It has the major, and defeating, drawback of impairing the *Division's* ability to serve the distribution side of the power system. This is not necessarily true in concept, but would likely be the result of its perceived integration with the bulk power system. We are doubtful that the *Division* could balance its priorities, or be perceived to do so, in a way which would make it an attractive supplier for distribution utilities.

The second alternative includes the General Manager of the Hydro Support Services *Division* as a member of the Corporate Office. There are strong arguments in favor of this approach, which is preferred by senior Hydro executives. Such an arrangement would ensure that the *Division* is, and is perceived as, neutrally located between the bulk power and distribution components of the system. This would enhance the corporation's ability to provide the economies of bulk supply and service to the several distribution utilities. In addition, because the services are pervasive and broad, a direct channel to the Corporate Office would give that Office the ability to monitor the activities of the other *Divisions*. It is in this benefit that our Study Team sees a danger that contamination of the service relationship with real or perceived monitoring would greatly impair the development of the required relationships between supplier and customer. This would be true for the Generation and Transmission and Design and Construction *Divisions* which are an integral part of the Hydro Corporation. But it would be devastating to the establishment of appropriate supply relationships with the relatively

FIGURE 14: CORPORATE OFFICE - ALTERNATIVE REPORTING RELATIONSHIPS FOR HYDRO SUPPORT SERVICES



independent distribution utilities. Finally, there is concern about the advisability of bringing operational responsibility directly into the Corporate Office.

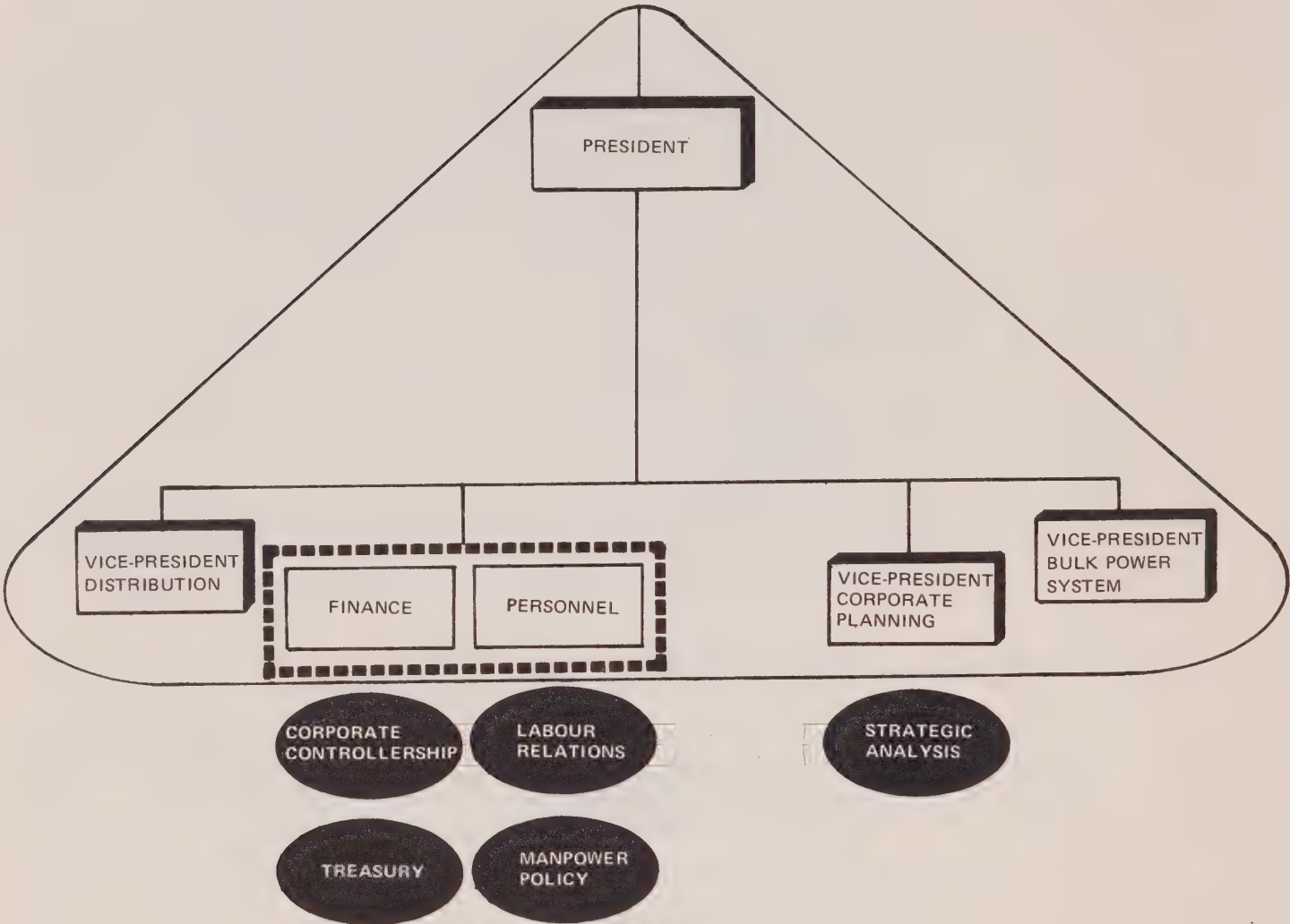
The third alternative envisages the Hydro Support Services *Division* reporting directly to the President, but not as a member of the Corporate Office. This has the advantage of neutrality between the bulk power and distribution components of the system. It avoids introducing the general management responsibility into the Corporate Office, and it discourages the use of the *Division* as a monitoring device. Its major drawback lies in the isolation of the General Manager from the other *Divisions*, although this might be construed as an advantage. In addition, it places an added responsibility on the President for integrating the *Division* into the corporate whole. On balance, however, this is the alternative favoured by the Organization Study Team.

There is a further alternative which merits consideration. This involves the establishment of a single office within the Corporate Office with responsibility for finance, personnel and services.

Summary of Corporate Support Functions

Figure 15 illustrates the corporate support functions relating directly to the Corporate Office as envisaged by the Organization Study Team.

FIGURE 15: A CONCEPT FOR CORPORATE SUPPORT FUNCTIONS



SECTION V

IMPLEMENTATION

Bringing about a change in organization as fundamental and as dramatic as that proposed will be a major undertaking. The approach to implementation will, therefore, be at least as important as the design itself. We favour an approach which includes whatever further study is required to establish a definitive set of responsibilities and reporting relationships, decisive senior-level organization changes and a high degree of participation by Hydro managers in defining the detailed changes.

Any approach to Hydro's reorganization presupposes that the Government of Ontario has decided on a new Role and Place for Hydro including its relationship with Government and the community and the composition and terms of reference for the new Hydro Board. A further prerequisite is acceptance of the principles and general approach taken in this report. We therefore recommend that:

2.1 The organization concepts developed by Task Force Hydro's Organization Study Team be adopted by Hydro as an approach to organization in fulfillment of the new role and place as approved by the Government of Ontario.

The general plan and underlying principles having been adopted, it will then be possible to begin the detailed implementation. The approach recommended by our Organization Study Team implies the adoption of certain major organizational concepts before all of the questions of detailed implication are worked out. It implies, for example, that the basic *Divisional* structure be accepted and the Corporate Office created before the precise division of responsibility for personnel and controllership is determined.

We favour this approach for attitudinal and pragmatic reasons. We feel it establishes the objectives and direction of change and permits the organization capability of Hydro executives and managers to be fully and creatively used to bring about a working reality. It sets a bias toward change, without constraining the creative competence of managers in how that change is to be made to work. We are doubtful that the basic shifts in role and responsibility implied by the organization concept can be brought about if executives continue to carry their existing loads in the current context. Specifically, the decentralization of the general management function would be most difficult if it were to be implemented in the context of the current General Manager's Committee.

We recognize, however, that certain questions must be answered before any changes are made. Once these have been completed, an interim

organization can be established to provide a vehicle for detailed implementation. Such a temporary organization structure should be devised to minimize the disruption within existing divisions, yet it should provide the new context for their future responsibilities and operation styles. The plan should maintain an integrity of accountability while assigning precise responsibilities for detailed study and affirming the responsibility of the line organization for implementation.

Interim Organization

Our Organization Study Team has developed such a set of proposals defining reporting relationships in an interim organization and assigning existing divisions in Hydro to a specific Vice President. Distinctions are drawn between new functions and existing functions and areas are identified in which specific studies and organization development projects are required to further the process of implementation.

Before progress in implementation can begin, certain key decisions must be taken. We therefore recommend that:

- 2.2 *As an initial step toward a new organization, Hydro establish a Corporate Office and a Divisional structure based on the four missions identified by the Organization Study Team, viz; Design and Construction, Generation and Transmission, Distribution, and Supply Services.*

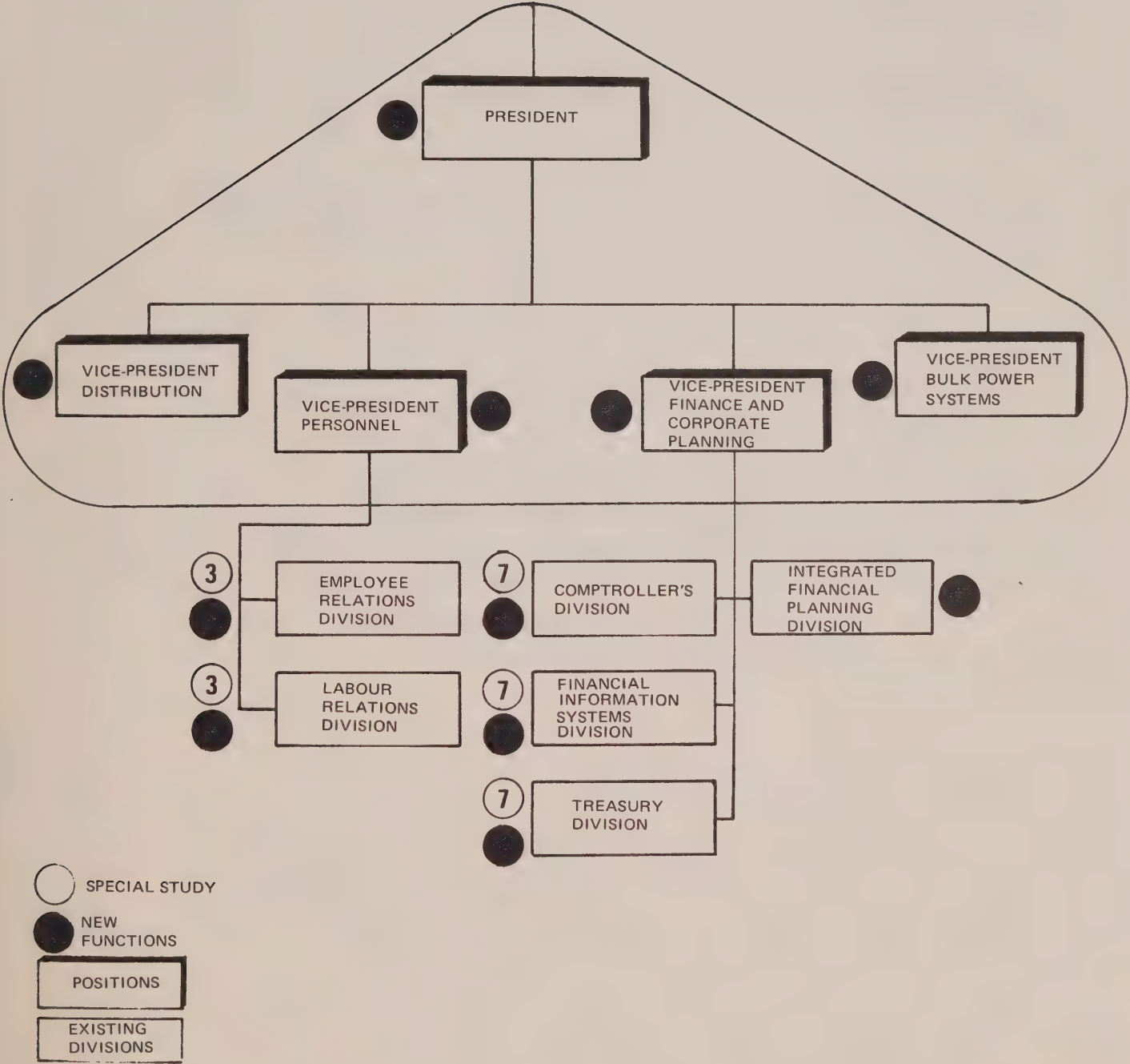
The Interim Organization devised by the Organization Study Team is described below. It illustrates what was thought to be a reasonable solution and is presented for Hydro's consideration. In this way an interim organization would be established.

Corporate Office

Figure 16 suggests an interim organization for the Corporate Office. Pending resolution of the question of separation or integration of corporate personnel and finance functions, we suggest that a Vice President Personnel be appointed, and that a Vice President Finance and Corporate Planning be assigned the responsibility of developing the role of corporate planning.

Two divisions, that of Employee Relations and Labor Relations, would be assigned to the Vice President, Personnel. The Vice President Finance and Corporate Planning would have responsibility for two main areas. He would be responsible for the

FIGURE 16: INTERIM ORGANIZATION - A CONCEPT FOR THE CORPORATE OFFICE



Controller's, Financial Information Systems, and Treasury divisions, and the Integrated Financial Planning division from which would be drawn the nucleus of the analytical capacity sought for corporate planning.

Distribution *Division*

In Figure 17, a basic reporting relationship is established to link the Vice President, Distribution with the existing Regions and Marketing organization through a General Manager, Regions. This position carries with it a responsibility for the existing regional structure and those headquarters functions which directly support the field operation. Marketing and Distribution Policy are shifted to support the Vice President directly.

The specific studies indicated for the new functions of Marketing Policy and Distribution Policy are described in Appendix II.

Generation and Transmission *Division*

Figure 18 suggests that the principal existing divisions of the Operations Group of the Engineering Branch be assigned to the Generation and Transmission *Division*. Besides the new functions of Controller and Director of Personnel, provision is made for a Bulk Power System Regional Operations function to be established as the implementation of retail rationalization takes place. System Planning is included, but with study indicated as to its new role with respect to the Corporate Planning function. The Research division is kept as an integral part of the engineering group until a feasibility of its operation as a service has been determined.

Design and Construction *Division*

As indicated in Figure 19, the project-oriented organization of the Design and Construction Administration Group within the Engineering Branch is to form the basis for this *Division*. New functions are limited to controllership and personnel.

Hydro Support Services *Division*

It is suggested that this *Division* take on considerable additional responsibilities from the existing Services Branch. As indicated in Figure 20 these are:

FIGURE 17: INTERIM ORGANIZATION - A CONCEPT FOR THE DISTRIBUTION DIVISION

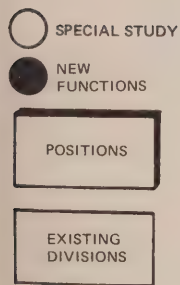
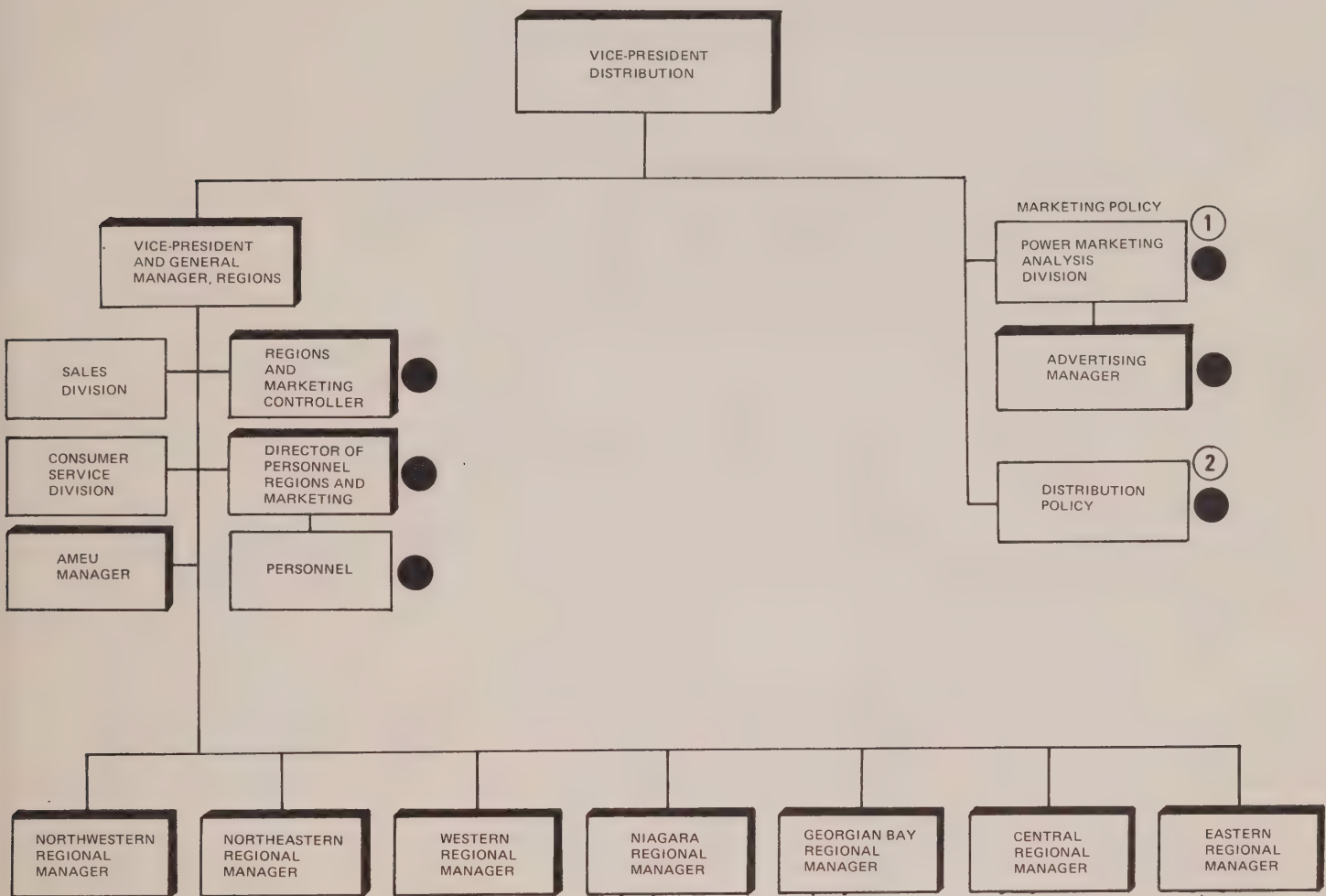


FIGURE 18: INTERIM ORGANIZATION - A CONCEPT
FOR GENERATION AND TRANSMISSION DIVISION

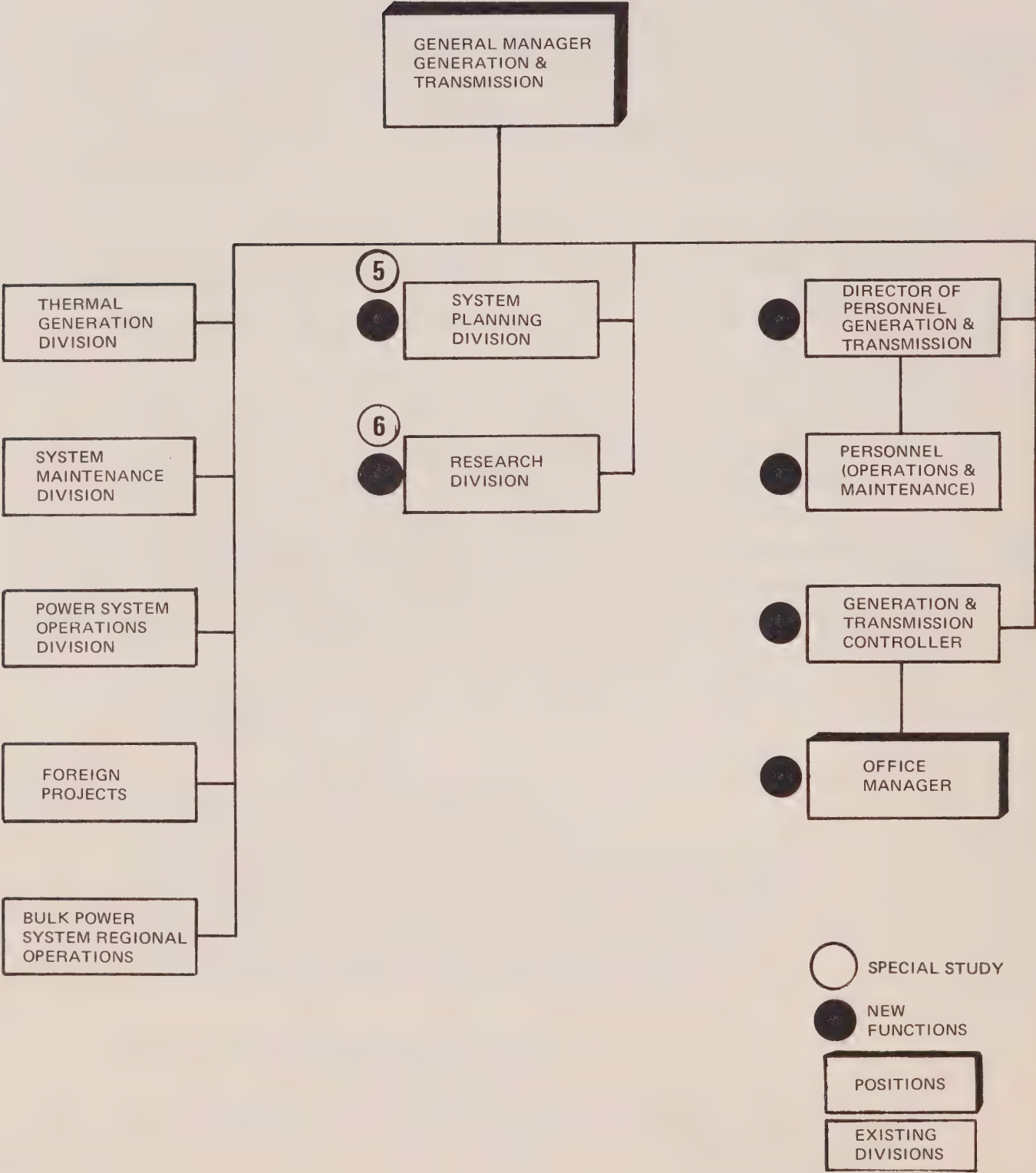


FIGURE 19: INTERIM ORGANIZATION - A CONCEPT OF THE DESIGN AND CONSTRUCTION DIVISION

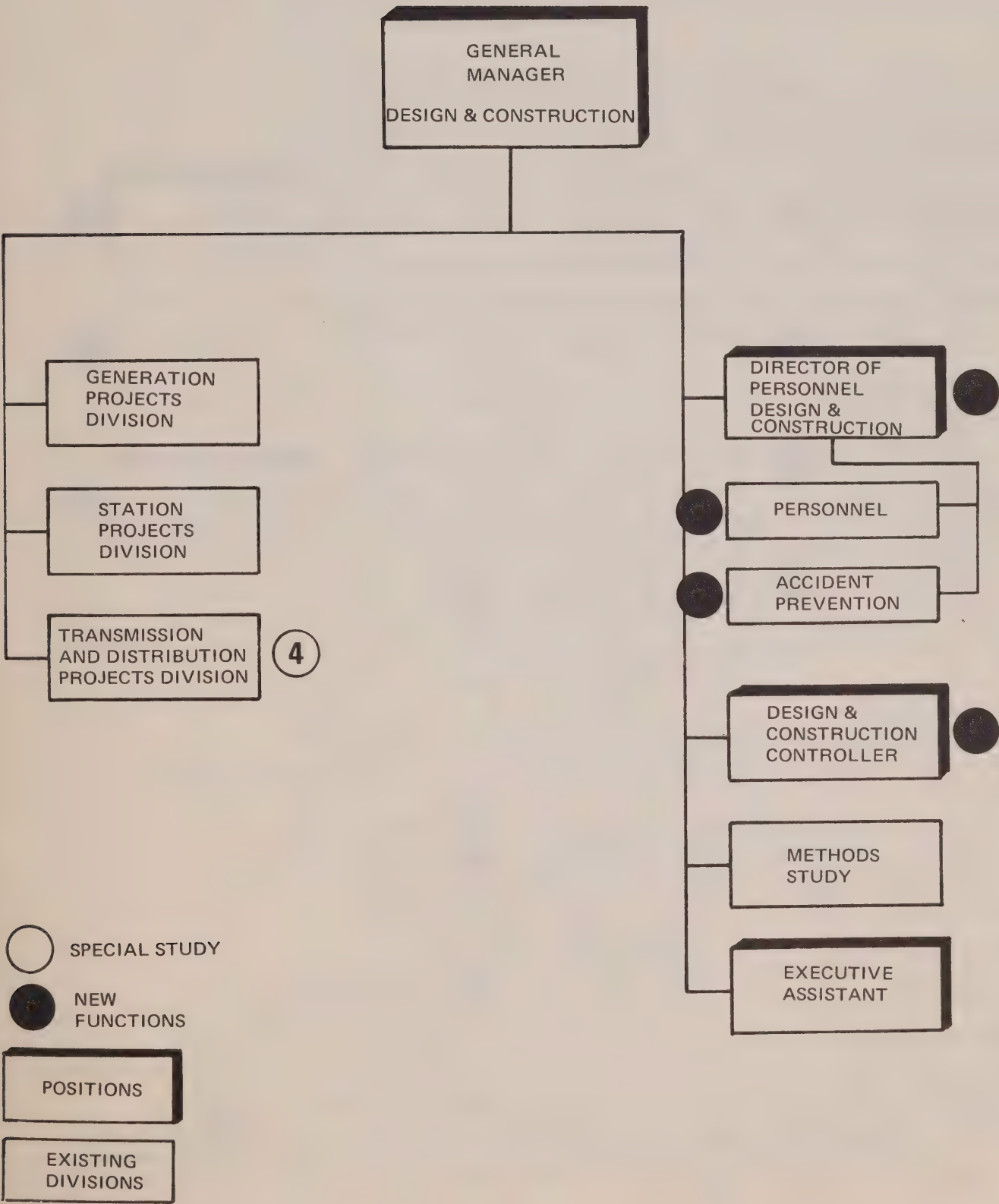
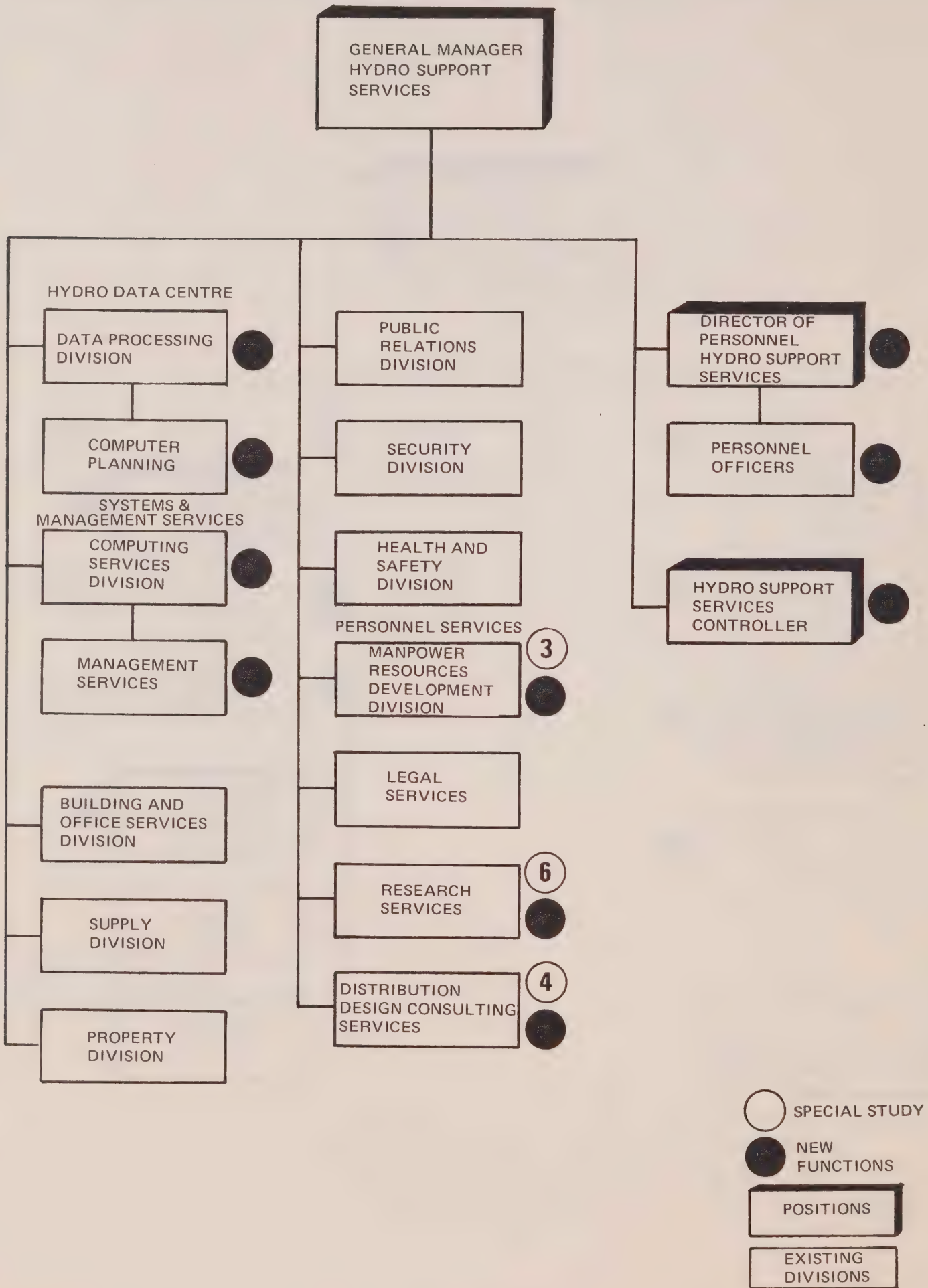


FIGURE 20: INTERIM ORGANIZATION - A CONCEPT FOR THE HYDRO SUPPORT SERVICES DIVISION



- the Computers Branch, to be subdivided into two new functions: the Hydro Data Centre and a Systems and Management Services Group;
- the Health and Safety and Security divisions from the Personnel Branch;
- the Manpower Resources Development division from the Personnel Branch to form the base for a Personnel Services Group;
- Legal Services from the General Manager.

Provision is made for Research Services and a Distribution Design Consulting Services Group. Both of these are to be implemented only after further specific study. The intent of their provision here is to make both of these functions available on a fee-for-service basis to the distribution utilities, but the feasibility of such moves requires further analysis. Finally, the *Divisional* controllership and personnel functions are indicated.

Approach to a New Organization

The Organization Study Team identified a series of seven studies which it felt essential to determine in detail new functional roles, management systems and reporting relationships for Hydro's future organization. These studies might involve the use of external resources working under Hydro supervision. They would be an integral part of an overall plan of implementation. Eight organization development projects were also suggested, each of which would allocate specific responsibility to senior Hydro managers for various aspects of implementation.

We consider these Studies and Development Projects of vital importance to Hydro's future and we recommend that:

- 2.3 *Hydro initiate further studies, using external resources where necessary, to plan the organization structure best suited to its new Role and Place and to develop the highest possible level of productivity and efficiency.***

Terms of reference and the scope of specific studies and development projects were proposed by the Study Team. These specific studies and development projects have not been explored in depth with Hydro, and this step would be necessary as an extension of the participatory process employed in the Organization Study. Details of these studies and development projects are listed in Appendix II for further consideration by Hydro as one approach to the implementation of organizational change.

Timing

In our First Report we recognized the importance of taking advantage of the cooperation which our Organization Team had received from Hydro managers in the conduct of its Study. Therefore we had put forward recommendation 1.32 to the effect that:

...the Hydro Board require management to submit for its approval a detailed plan and timetable for an approach to reorganization.

Although the time required to achieve a new organization structure will depend on many decisions yet to be taken, it was agreed by Hydro managers and our Study Team that the bulk of the structural changes could be effected in from 12 to 18 months.

SECTION VI

ORGANIZATION FOR PUBLIC RESPONSIVENESS

In the years of stable rates and relatively limited physical growth, the electrical delivery system caused little concern to the majority of the citizens of Ontario. Power bills were low, the bulk of generation facilities were sited on easily accessible waterways and for the most part transmission lines were welcomed as a sign of development.

Developments in recent years have transformed Ontario Hydro into less of a hero and more of a villain in the eyes of some segments of the population. The shift from hydraulic to thermal generation has caused concern among different groups for different reasons: the large power consumers because of escalating costs; the environmentalists because of air and water pollution. And with the rising demand for power come problems of land use for transmission and generation facilities.

Two types of problems are evident. The first involves a specific contentious issue where an individual customer or small group of customers feel they have not been justly dealt with by the delivery system. The question of rates can be involved or the quality of service or supply. This type of problem may be characterized as being principally operational in nature, concerned with the day-to-day administration of the system, essentially on a one-to-one basis, and of little concern to the remainder of the population.

The second type of problem has received more general public attention and is concerned with the siting of power facilities, the 500 kv line from Nanticoke to Pickering and the Beverley Street Transformer Station being two recent examples. The two types of problem are therefore very different in nature. One is individual or consumer oriented, on an operational level, the other is group centred and focussed generally on physical plant.

It was with these differences in mind that we made two recommendations in our First Report to the effect that:

- 1.10 Hydro establish a procedure whereby representations and appeals from the public can be heard by a body responsible to the senior policy making body of Hydro but not a part of the line organization.

and that:

- 1.12 Hydro consider the establishment of ad hoc citizens' task forces to provide for citizen participation in the locating of

generating and transmission facilities and in other matters of concern to the public.

In the context of our Organization Study and in light of these recommendations, we now give further consideration to the important question of Hydro's responsiveness to the public.

Hydro and the Individual

Given the immense number of interactions among Ontario Hydro, the utilities and the general public, it is inevitable that no matter how well the majority of these may be handled, a small proportion of persons will feel abused and dissatisfied with Hydro's response to their particular problem. From an analysis of the briefs submitted to Task Force Hydro, we concluded that in some cases, the dissatisfaction was not in fact justified by any normal set of criteria. However, there were instances where it was clear that administrative processes had failed to satisfy an individual who was left with no recourse.

We referred all submissions which could be classed as service complaints to Ontario Hydro asking that we be informed when appropriate action had been taken. Through this process, we discovered cases where the complexity of the system served to confuse the person seeking redress. It seemed that as the individual came to distrust the system, he used other means available to short circuit the designation process by appealing to higher levels of authority. In some cases, where matters of quite minor importance were concerned, the Office of the Premier, the Minister for Hydro, the Chairman of Hydro or the Vice-Chairman could become deeply involved. Thus an inordinate amount of time was taken up at senior levels of government and Hydro management with operational problems.

The point is, in our view, that Hydro as a public corporation has an obligation to take greater initiative in providing ample opportunity for an individual to seek redress. For this reason, we indicated in our first report the need to establish a third party mechanism to which an individual may appeal after the conventional channels of Hydro's line organization have proven unsatisfactory.

What is required is a kind of ombudsman with terms of reference specially suited to Hydro's particular situation. The third party would not have the power to arbitrate but he would have the authority to review a case and make recommendations to the line organization on behalf of any individual who, in his view, had not received fair treatment. In short, an individual would be offered a sympathetic, objective hearing by a person free from the pressure of line responsibility.

We therefore recommend that:

- 2.4 *Hydro establish an Office of Public Affairs headed by a Director of Public Affairs responsible to the Board for hearing grievances relating to services to the public rendered by Hydro and the distribution utilities.***

The Director of Public Affairs

To be successful, the Director of Public Affairs must be perceived as independent and impartial. He cannot therefore be a part of the line organization or, in spite of his title, a member of the Hydro Board. He should, however, for obvious reasons be familiar with the electrical utility industry and understand the problems Hydro must face. He must possess the style of operation and personal qualifications which will enable him to work in close cooperation with Hydro and utility management and at the same time appear to the public as an objective and impartial advocate of the rights of an individual.

The Director of Public Affairs should be empowered to receive complaints from individuals who have not been able to receive satisfaction through the normal channels. His jurisdiction should be restricted to problems of a service or operational nature including customer complaints about the quality of service. Complaints would come from customers served by any part of the delivery system including the municipal utilities. Many inquiries will deal with rates and these should be dealt with when they relate to unsatisfactory management practice or administration. Where rate questions have to do with power costing and rate philosophy, they should be referred to an independent rate review body which will be discussed in our report on financing.

Before commencing any enquiry, the Director of Public Affairs, should first ensure that the complaint has in fact been considered by the management of Hydro or the municipal utility concerned. Where the Director feels that intervention is necessary, he should notify the appropriate manager and request the pertinent information. Having then determined all the facts, the Director of Public Affairs would proceed to dispose of the case in one of three ways.

- In cases where there was a legitimate complaint, recommend to the Manager concerned a solution which would satisfy the complainant and yet would not contravene corporate policy.
- explain corporate policy to the complainant indicating why there clearly was no justification for altering management's original decision.

- notify the Manager and either the Hydro Board or, in the case of a utility, the commissioners, of exceptional circumstances surrounding the case with a recommendation to amend or waive corporate policy.

In fulfilling his role we see the Director of Public Affairs working closely with the line organization in Hydro and throughout the utilities in an effort to develop a higher degree of responsiveness on the part of management to the public point of view. The office therefore would have to include only a small staff.

Relations with Members of the Legislature

We are aware that in failing to recommend a member of the Legislature be a member of the new Hydro Board, we have suggested a break with tradition. It is our intention to modify the tie between the Legislature and Hydro and to redefine it in terms appropriate to Hydro's new relationship to Government. In matters of broad policy we feel that the proper channel of communication is through the Chairman of the Hydro Board and the responsible Minister. There remains however the important matter in the eyes of individual members of the Legislature of Hydro's response to problems brought to them by constituents. In the past a great many of these problems have been dealt with by a member of the Legislature appointed to the Hydro Commission. In our view, it is important that there be a person designated to handle these matters where they involve operational or administrative detail and we consider that the Director of Public Affairs should be that person. We therefore recommend that:

2.5 The Director of Public Affairs place himself at the disposal of members of the Legislature to ensure rapid and effective response to questions and complaints submitted by constituents about Hydro or the distribution utilities.

Consideration must also be given to ensuring that there is a person in the Legislature well enough informed to answer questions about Hydro. The Minister to whom Hydro reports will be fully informed and therefore able to answer questions on matters of policy. Questions of an operational or administrative nature will inevitably arise from time-to-time, and these also can be handled by the Minister on the basis of detailed responses prepared by Hydro and submitted through the Office of the Chairman.

Citizen Participation and Open Planning

In our first report we referred to a number of examples in Ontario in which groups of citizens had successfully played a role in planning of public enterprise. The involvement of citizens in the Trefann Court Urban Renewal Scheme and the design of the Kensington Community School is indicative of a shift in public attitudes, of increasing concern about environmental damage and insular planning by government and large organizations. These events have shown positive results in the form of innovative solutions which are acceptable to the majority of citizens concerned.

The initial report of the Solandt Commission⁴ gives evidence that conventional decision-making processes have proved inadequate in terms of providing a publicly acceptable solution to the location of Hydro's proposed 500 kv line from Nanticoke to Pickering.

- It appears that Hydro did not receive the effective cooperation of the Niagara Escarpment Task Force or of the Toronto-Centred Region planners.
- It was reported that Hydro held discussions with the municipalities concerned which resulted in substantial acquiescence and agreement that Hydro proposals did not interfere with planned development. In spite of this, strong opposition to the line developed later on the part of individuals and environmental groups.
- It seems that Hydro had applied fairly up-to-date techniques to support their preference for one route rather than presenting evidence regarding a number of feasible routes from which one optimum route might be selected.

Dr. Solandt stated that had an effective planning mechanism been working, the need for his Commission would not have arisen. In this connection he makes a strong case for public involvement in an "open planning" process.

It is interesting to note that Hydro recommended to the Solandt Commission a procedure for open planning which could be applied to the future location of transmission lines. Based on Hydro's suggestion, we visualize a four-phase procedure which could become a model for future planning:

- The first phase would involve discussion with government ministries and municipalities and special interest groups to define the nature and scope of the project. Following this, information would be made public including long-term facility requirements, location data and environmental factors.

- Public meetings would then be held with elected officials agencies, groups and individuals to obtain information about such special constraints as environmental concerns and weighting factors to be applied, local attitudes regarding official plans, and the existence and location of historical sites. We visualize these meetings being arranged by a task force of Hydro planners along with representatives from the Provincial Government and, where appropriate, from local government.
- Information and views obtained at public meetings and discussions would be analysed using up-to-date route selection techniques and an interim report prepared indicating a number of technically and economically feasible alternatives and cost estimates. This interim report, after being reviewed with government ministries, would be presented to the public for detailed discussion and evaluation.
- On the basis of these second-round discussions, a preferred route would be selected and a final report prepared. The Hydro Board would make this report public at the same time submitting its recommendation to the Minister. After Government review, an order-in-council authorizing the project would be executed.

We welcome the initiative on Hydro's part as an indication of a willingness on the part of the Commission to adopt an open planning procedure involving the general public. An important step has been taken in evolving a procedure which is sensitive to the public view. The procedure, as it unfolds, could involve the effective collaboration of government and Hydro planners with concerned members of the general public. Hydro's plans could be developed with full weight being given to the value judgments of informed laymen, with responsibility for the final decision remaining where it belongs with Government and Hydro. And, what is more important, as the open planning procedure is perfected, Hydro's plans to serve the province can proceed in an orderly manner without the delays and additional expense imposed by public confrontation.

We therefore recommend that:

- 2.6 *Ontario Hydro planners, in collaboration with Government at the provincial and local levels and with interested individuals and citizen groups, develop an open planning process to produce economically and technically feasible plans for transmission and generation facilities acceptable to the public and with minimum adverse environmental impact.***

FOOTNOTE

4. Preliminary submission to the Hon. A.B.R. Lawrence, Provincial Secretary for Resources Development from the Solandt Commission — 31/10/72.

SECTION VII

SUMMARY OF RECOMMENDATIONS

REPORT NUMBER ONE: HYDRO IN ONTARIO – A FUTURE ROLE AND PLACE

Task Force Hydro recommended that:

HYDRO'S ROLE

- 1.1 (a) *Ontario Hydro be responsible to the Government of Ontario for the generation, transmission and distribution of electric energy in the Province.*
- (b) *Ontario Hydro discharge this responsibility in compliance with the overall policy of the Provincial Government.*
- (c) *Except where economic considerations dictate otherwise Ontario Hydro delegate its responsibility for the distribution of electric energy to utilities that are agents of municipalities.*
- 1.2 *Hydro be a delivery agency of the Provincial Government receiving broad policy direction from the Government through the Provincial Secretary for Resources Development.*
- 1.3 *Hydro be directed through the Provincial Secretary for Resources Development:*
 - (a) *to meet demand for electricity in Ontario at the lowest feasible cost.*
 - (b) *to maintain those standards of reliability which are agreed upon from time to time by the Government and Hydro.*
- 1.4 *Hydro exploit its technology through developing and pursuing policies to share its technological expertise with the private sector.*
- 1.5 *As a general rule, the additional costs incurred for environmental concerns be included in electricity prices.*

- 1.6 *Hydro actively participate in the development and support of Government policies with respect to energy and the environment.*
- 1.7 *Hydro's marketing policy be designed specifically to support Provincial energy and environmental policy and, within the limits thereby imposed, to ensure the most efficient use of the system's capital facilities.*
- 1.8 *There continue to be close coordination between Hydro and the Ministry of Treasury, Economics and Intergovernmental Affairs in financial matters.*
- 1.9 *In the event that Hydro should be required to support regional development or contra-cyclical construction policies, the additional costs of so doing should not be built into power prices but should be borne by subsidy from the Provincial Treasury.*

HYDRO AND THE PUBLIC

- 1.10 *Hydro establish a procedure whereby representations and appeals from the public can be heard by a body responsible to the senior policy making body of Hydro but not a part of the line organization.*
- 1.11 *There be no requirement for the consent of the Minister of Justice and Attorney General to bring an action against the Hydro Commission or any member of the Hydro Commission.*
- 1.12 *Hydro consider the establishment of ad hoc citizens' task forces to provide for citizen participation in the locating of generating and transmission facilities and in other matters of concern to the public.*
- 1.13 *Responsibility for the establishment of electrical safety standards be transferred to an agency of the Ontario Government other than Ontario Hydro, but responsibility for the actual inspection function continue to rest with Hydro.*

HYDRO AND THE PROVINCIAL GOVERNMENT

- 1.14 Government policy, defining the broad objectives and constraints within which Hydro must operate, be specified by the Lieutenant-Governor in Council.*
- 1.15 To give expression to Government policy for Hydro and to define Hydro's mandate, a contract be drawn up between the Provincial Government and Hydro.*
- 1.16 Government policy for Hydro that is not defined by Orders-in-Council or by the Government-Hydro contract be determined by the Provincial Secretary for Resources Development in consultation with the senior policy body of Hydro.*
- 1.17 Hydro be directed to pursue other objectives which may be established from time to time by the Lieutenant- Governor in Council.*

CORPORATE STRUCTURE

- 1.18 Ontario Hydro be designated as a Crown Corporation to be known as the Hydro Corporation of Ontario or Ontario Hydro.*
- 1.19 The Board of the Hydro Corporation be empowered to deal with the Government on behalf of the total delivery system so as to facilitate consistent policy direction for the total system.*
- 1.20 The Hydro Corporation Board consist of eleven members appointed by the Lieutenant-Governor in Council as follows:*
- a Chairman, for a five year term, renewable*
 - the President of the Hydro Corporation, ex officio*
 - two representatives from nominations submitted by the Board of Directors of the Ontario Municipal Electric Association, for three year terms, twice renewable.*
 - two senior civil servants*

- *five members-at-large to be named from outside the delivery system and government and to be selected for expertise in industrial, corporate, economic or other matters relevant to Hydro, appointed for three year terms, twice renewable.*

- 1.21 The Chairman be appointed on a full time basis and his orientation be outward to the Ontario community and to the Government and that, with his Board, he focus on the translation of Government policy into consistent and achievable corporate objectives and policies.*
- 1.22 The President be responsible to the Board of Directors for directing the affairs of the Corporation in accordance with goals and objectives established by the Board.*

HYDRO AND THE UTILITIES

- 1.23 Ontario Hydro be directly responsible for the management of that part of the delivery system which generates and transmits bulk power.*
- 1.24 The division of responsibility between the wholesale and retail functions be drawn at the main secondary bus-bar of the transformer station.*
- 1.25 Municipal utilities be rationalized into upper tier regional utilities where and as new municipal government is implemented.*
- 1.26 The area to be served by the regional utility be the entire area served by the new municipal government.*
- 1.27 A first step toward rationalization encompass those areas of the Province that now have new municipal governments, with the experience thus gained to guide future steps.*
- 1.28 Those responsible for planning the rationalization of the retail system attempt to achieve some rationalization of utilities which do not lie within areas soon to be under the jurisdiction of new municipal governments, including the private utilities.*

1.29 The commissioners of regional utilities be appointed by the municipal council from outside the council with the exception of the chairman of the council who shall be a member ex officio of the commission.

1.30 The Hydro Corporation give effect to its policy and that of the Provincial Government through contracts with each utility, such contracts to reflect a working agreement between the Corporation and the utility.

OWNERSHIP

1.31 Control and ownership of the Hydro Corporation continue to reside with the Government of Ontario, but the interest of the municipalities be established and defined as follows:

- An equity account be established on the balance sheet of the Hydro Corporation as an item to replace the "equities accumulated through debt retirement charges" and certificates be issued to the participating municipalities and to the Corporation as trustee for the power district for their proportionate shares therein.*
- The certificates be described as non-voting participating shares in the equity account of the Hydro Corporation (equity account shares) and new certificates be issued annually to represent the changing interests of each participating municipality and the rural power district in the same manner as the debt retirement charges have been apportioned annually in the past.*
- The certificates entitle each participant holding such certificates to receive on the liquidation or winding up of the Hydro Corporation a share proportionate to the dollar amount of the certificates held of the surplus funds realized on liquidation after payment or provision for payment of all debts and obligations of the Hydro Corporation.*

ORGANIZATION

- 1.32 Once the Government has established a redefined mandate for Hydro the senior governing body of Hydro require management to submit for its approval a detailed plan and timetable for an approach to organization.*

REPORT NUMBER TWO: HYDRO IN ONTARIO – AN APPROACH TO ORGANIZATION

Task Force Hydro recommends that:

INTERIM ORGANIZATION

- 2.1 The organization concepts developed by Task Force Hydro's Organization Study Team be adopted by Hydro as an approach to organization in fulfillment of the new role and place as approved by the Government of Ontario.*
- 2.2 As an initial step toward a new organization, Hydro establish a Corporate Office and a Divisional structure based on the four missions identified by the Organization Study Team, viz; Design and Construction, Generation and Transmission, Distribution, and Supply Services.*

APPROACH TO A NEW ORGANIZATION

- 2.3 Hydro initiate further studies, using external resources where necessary, to plan the organization structure best suited to its new Role and Place and to develop the highest possible level of productivity and efficiency.*

PUBLIC RESPONSIVENESS

- 2.4 Hydro establish an Office of Public Affairs headed by the Director of Public Affairs responsible to the Board for hearing grievances relating to services to the public rendered by Hydro and the distribution utilities.*
- 2.5 The Director of Public Affairs place himself at the disposal of members of the Legislature to ensure rapid and effective*

response to questions and complaints submitted by constituents about Hydro or the distribution utilities.

- 2.6** *Ontario Hydro planners, in collaboration with Government at the provincial and local levels and with interested individuals and citizen groups, develop an open planning process to produce economically and technically feasible plans for transmission and generation facilities acceptable to the public and with minimum adverse environmental impact.*

APPENDICES

APPENDIX I

NOTES ON ORGANIZATION THEORY

The following notes are to elaborate the theory underlying the discussion in Section II on Organization Design Criteria for the Hydro Organization.

Differentiation and Integration

Lawrence and Lorsch¹ at Harvard University have developed an approach to organization which is particularly appropriate to industries facing a high degree of uncertainty, and where there is a long time-span between the taking of a decision and feedback on its adequacy. Their approach is based upon comparative research in United States industrial concerns where the organization characteristics have been correlated with their economic effectiveness.

Their research has indicated that, under conditions of uncertainty, the most successful organizations are those which have a high degree of differentiation among their component parts. Differentiation implies a different approach to management within each organization component — differences which permit each component to be highly adapted to its task and external environment. Each component must devise different orientations, organization patterns, management styles, time horizons and systems for information and control. These must be highly compatible with the particular role each component plays in the organization and the external variables with which it must cope.

At the same time, the organization requires strong devices for integration, for drawing the organization together into a coordinated whole. Integration, in this context, refers primarily to devices for resolving conflict among the differentiated components. The greater the differentiation, the more opportunities for conflict, and the greater the need for integration. Integrating mechanisms may be organization devices, such as committees or specific positions and roles, or they may be systems of information, policy, planning and control.

Differentiation and integration are, under this concept, inherently contradictory. The greater the differentiation, the more difficult is integration to achieve. Conversely, the stronger the integrative mechanisms, the more difficult it is to maintain a high degree of differentiation. Yet the Harvard research is clear on this point: The most successful organizations are those which are able to sustain both a high degree of differentiation and strong integration.

We apply these concepts to Hydro, indicating what we believe to be the appropriate bases for differentiation and suggesting the kinds of mechanisms appropriate to achieve strong integration.

M-Form Organization

Williamson² has developed a comparative analysis of what he terms S-Form and M-Form organizations to isolate their relative economic effectiveness. The “S” or Single-Form organization is the familiar functional pattern typified by the current Hydro organization. The principal division of responsibilities is along functional lines: engineering, marketing, finance, personnel, etc.. Strategic decision-making is focused on the top management position, supported by functional advice through the chief functional executives. The “M” or Multi-Form organization is one where the general management function is broken down, along product or market lines, into component divisions or subsidiary organizations. Profit and loss responsibility in industrial M-Form organizations is dispersed to divisions, as is the functional support, especially finance and personnel. The classic M-Form organization is that of General Motors with its basically self-contained, and competitive, product divisions. Conglomerates are radically M-Form.

Williamson’s analysis strongly supports the M-Form structure for large organizations. It argues that large scale, with its resulting multiple levels of hierarchy, reduces an S-Form organization’s ability to adjust policy to changes in market, technology and method. This is because all functional variables come together only at very high levels in the organization and the channels of information flowing to and from this focus of decision are too long to function with fidelity. The M-Form, by contrast, has the decision points decentralized to a level which can remain fully in tune with changing environmental pressures.

Williamson’s thesis places considerable stress on a sharp distinction between corporate-level decision-making and decentralized profit and loss responsibility. Where the corporate level executives do not have responsibility for the management of large functional groups, they are able to focus on the corporate role without a conflict of interest. This corporate role he defines as:

- establishing the strategic parameters: what the organization is to accomplish;
- providing support to the operating divisions;
- ensuring compliance with strategic parameters.

Williamson argues that the M-Form organization has, in the United States, compensated for a deficiency in the capital market by providing a more sensitive mechanism for shifting investment from economically low productive enterprise to that with a higher payoff. He views the M-Form as the organizational innovation of the 20th century.

Clearly, Williamson's model does not apply broadly to Hydro. There is no way of subdividing, for example, the bulk power system in Ontario which will permit the realization of technical economies of scale. Yet we are of the view that there are ways of achieving some of the advantages of M-Form for Hydro, as suggested in the text of this report. Efforts in this direction will be increasingly rewarding as Hydro grows.

Bounded Rationality

Perhaps the behavioural scientists and systems analysts were the first to systematically identify diseconomies of scale for human organizations. March and Simon³, over a decade ago, developed a concept of bounded rationality to illustrate why organizations departed from some of the traditional expectations on them. In simplest terms, bounded rationality describes the inability of persons in complex organizations to have, at their disposal, complete and undistorted information — either on goals and objectives or on performance toward these goals. This issue has motivational overtones as well. Individuals who cannot grasp the full significance of their work frequently do not realize the full potential of their abilities.

FOOTNOTES

- ¹. P. Lawrence, J. Lorsch, *Organization and Environment*, Cambridge, Harvard University Press, 1967.
- ². O.E. Williamson, *Corporate Control and Business Behavior*, New Jersey, Prentice Hall, 1970.
- ³. J.G. March and H.A. Simon, *Organizations*, New York, John Wiley, 1958.

APPENDIX II

SPECIFIC STUDIES AND ORGANIZATION DEVELOPMENT PROJECTS

The following terms of reference have been proposed by Task Force Hydro's Organization Study Team. They are included here for Hydro's information as one approach to organizational change.

SPECIFIC STUDIES

(1) Marketing Policy Study

- To define the role of marketing policy in translating Hydro objectives into marketing programs for Hydro as a whole, for Hydro's distribution systems and for the municipal utilities.
- To define the way in which marketing policy is to be included in agreements with distributing utilities including advertising, sales promotion and pricing policy.
- To define terms of reference, organization structure and staffing for the marketing policy function.
- To determine the way in which regional marketing personnel, the Power Marketing Analysis division and the Advertising Department are to be recast to meet the new functional objectives.

(2) Distribution Policy Study

- To develop a format for Power Contracts which permits selective application of Hydro policy to distributing utilities.
- To develop procedures and methods for periodic negotiation of power contracts.
- To develop methods for assessing the impact of policy objectives on distribution utilities.
- To develop methods for training Regional Managers in contract negotiation and administration.

(3) Personnel Organization Study

- To assess the desirability of decentralizing the major Personnel functions
- To define the responsibilities of Directors of Personnel which might be incorporated into the operating *Divisions* of Hydro.

- To define the responsibilities of the Vice President, Personnel for personnel policy and service.
- To identify those aspects of personnel service which are best administered by the Hydro Support Services *Division*.
- To identify possible changes in practice for the Labor Relations division, Health and Safety division, Security division, Employee Relations division and the Manpower Resources and Development division.
- To develop a systematic plan for the possible reassignment of people within these divisions.
- To develop a detailed set of objectives, strategy, performance criteria and organization structure for personnel services.

(4) Distribution Design Consulting Services Study

- To identify that component of the Transmission and Distribution Projects division which might operate, on a fee-for-service basis, to support the distribution utilities.
- To determine the feasibility of establishing a distribution design consulting service within the Hydro Support Services *Division* to serve the needs of the distribution utilities or others outside Hydro.
- To determine the appropriate timing for establishing such a service.

(5) System Planning Study

- To define the objectives of the physical system planning function.
- To define the division of responsibility between physical system planning and the Vice President, Corporate Planning.
- To define appropriate organizational relationships with the research function and with the generation concepts aspects of Design and Construction.
- To establish an organization structure, staffing, reporting and liaison relationships with other parts of the organization.

(6) Research Study

- To define the requirements for organizational integration with physical system planning.
- To assess the feasibility of Hydro research serving the distribution system.
- To determine whether the existing research organization is best retained as an integrated group, or whether it would be better sub-divided.
- To determine the feasibility of research operating as a contract service within the Hydro Support Services *Division*.

(7) Controllership and Management Information Systems Study

- To assess the desirability of decentralizing the controllership function.
- To define the responsibilities of *Divisional* controllers.
- To define the responsibilities of the Vice President, Finance for corporate controllership, corporate accounting, and strategic financial information systems.
- To determine the feasibility of assigning responsibility for certain finance functions to the Hydro Support Services *Division*.
- To develop an organization structure for the financial aspects of the Office of the Vice President, Finance.

ORGANIZATION DEVELOPMENT PROJECTS

(1) Corporate Development Project

Responsibility: President

Objectives:

- To plan the provision of the executive resources
- To plan, coordinate and control all the implementation projects
- To implement and further develop the concept of the Corporate Office
- To plan medium and long range programs for executive development involving educational opportunities and outside recruitment.

Sub-Projects: (a) *Executive Resources*

- To optimize the utilization of executive talent available within Hydro — through cross posting and promotion of personnel who show a propensity for innovation.
- To develop further potential for innovation through exchange of executive personnel with Government and industry.

(b) *General Internal Communication*

- To distribute broadly reports and supporting material to all Hydro employees.
- To ensure adequate information flow to Hydro employees on implementation progress.

(c) *Executive Communication*

- To permit full review and discussion of organization recommendations and implementation plans to Directors and Managers.

We consider that Sub-project (a) dealing with the identification and development of executive resources to be of special importance. During the study the Organization Study Team identified a group of individuals at various levels in Hydro management who were thought to have the qualities required to implement change.

(2) Vice President, Finance and Corporate Planning Project

Responsibility: Vice President, Finance and Corporate Planning.

Objectives:

- To define a preliminary statement of Hydro corporate objectives.
- To identify analytical capacity within Hydro and the several departments of the Government which bears upon these objectives.
- To identify a staffing strategy for the Vice President's Office.

Sub-Projects:

(a) *Analytical Methods*

- To develop an analytical methodology for quantifying the implications of corporate objectives, assessing trade-off alternatives among them, and projecting short and long-term implications of alternative strategies.

(b) *Organization for Corporate Planning*

- Develop a set of working relationships to link analytical capacity in Hydro, e.g., physical system planning, research, marketing policy, and in Government, e.g., Treasury, Economics and Inter-governmental Affairs, Provincial Secretariat for Resources Development, etc., with Corporate Planning.
- Define objectives and staffing of Vice President's Office

(c) *To manage the specific study:*
 (7) *Controllershship and Management Information Systems Study.*

(3) Vice President, Personnel Project

Responsibility: Vice President, Personnel.

Objectives:

- To define the terms of reference and objectives of the Vice President.
- To manage the processes of change in: (3) Personnel Organization Study.

(4) Vice President, Bulk Power System Project

Responsibility: Vice President.

Objectives:

- To define the terms of reference of the Vice President.
- To define the terms of reference and responsibilities of the General Managers of Generating and Transmission and Design and Construction.
- To manage the specific studies: (5) System Planning Study and (6) Research Study

(5) Vice President, Distribution Project

Responsibility: Vice President.

Objectives:

- To define the terms of reference and responsibilities of the Vice President and the General Manager, Regions.
- To develop the responsibilities and terms of reference for the Director of Personnel and Controller.
- To develop an approach to relationships with the OMEA and AMEU.
- To develop an orderly plan for the transfer of responsibilities from the Regions to emerging distribution utilities.
- Liaise with retail rationalization studies.
- Manage specific studies:
 - (1) Marketing Policy Study and
 - (2) Distribution Policy Study.

Sub-Project: *Divisional Communication*

- To conduct seminars within Regions to ensure full communication and to foster a participative approach to organization change.

(6) Design and Construction Organization Development Project

Responsibility: General Manager.

- Objectives:
- To identify organization changes needed within Design and Construction to reflect new relationships with Generation and Transmission.
 - To define the role and responsibilities of the *Divisional* Director of Personnel and Controller.
 - To define *Divisional* objectives and performance criteria.

Sub-Project: *Divisional Communication*

- Conduct communication seminars on organization change and implementation plans to ensure full understanding within *Division* and to foster a participative approach to *Divisional* organization design and change.
- Manage specific study:
(4) Distribution Design Consulting Services Study.

(7) Generation and Transmission Organization Development Project

Responsibility: General Manager.

- Objectives:
- To develop a new organization structure for the *Division* which reflects: the *Divisional* mission, the eventual shift of regional operations into the *Division*, anticipated growth pattern.
 - To define the role and responsibilities of the *Divisional* Director of Personnel and Controller.

- To define *Divisional* objectives and performance.

Sub-Project:

Divisional Communication

- Conduct communication seminars on organization change and implementation plans, to ensure full understanding within the *Division* and foster a participative approach to organization change.

(8) Hydro Support Services Organization Development Project

Responsibility:

General Manager.

Objectives:

- To develop an organization structure and reporting relationships.
- To develop roles and responsibilities for *Divisional* Director of Personnel and Controller.
- To develop a strategy for making services available to distribution utilities.
- To develop specific transfer pricing and performance criteria for each organizational component.
- To develop *Divisional* objectives and performance criteria.

Sub-Project:

Divisional Communication

- To conduct communication seminars on organization change and implementation plans, to ensure full understanding within the *Division* — on a function-by-function basis — to provide a participative mechanism for developing new service attitudes, strategies and organization patterns.

APPENDIX III

TASK FORCE HYDRO
MEMBERS OF THE STEERING COMMITTEE

CHAIRMAN

J.D. Muncaster
President and Director
Canadian Tire Corporation Ltd.

H.A. Crothers
President
Crothers Limited

D.J. Gordon
General Manager
The Hydro-Electric Power
Commission of Ontario

R.M. Dillon
Professor of Engineering
Science
University of Western
Ontario

J.K. Reynolds
Deputy Provincial Secretary
for Resources Development

A. Frame
Past President
Ontario Municipal
Electric Association

R.B. Taylor
Vice President
The Steel Company of
Canada Limited

CENTRAL STAFF

R.M. Dillon
Executive Director

B.A. Baxter
Administrative Assistant

J.B. Smith
Research Director

C.A. MacFarlane
Secretary

J.O. Beaulieu
Research Analyst

V.J. McAfee
Administrative Terminal
Systems Operator

APPENDIX IV**TASK FORCE HYDRO
THE ORGANIZATION STUDY TEAM**

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